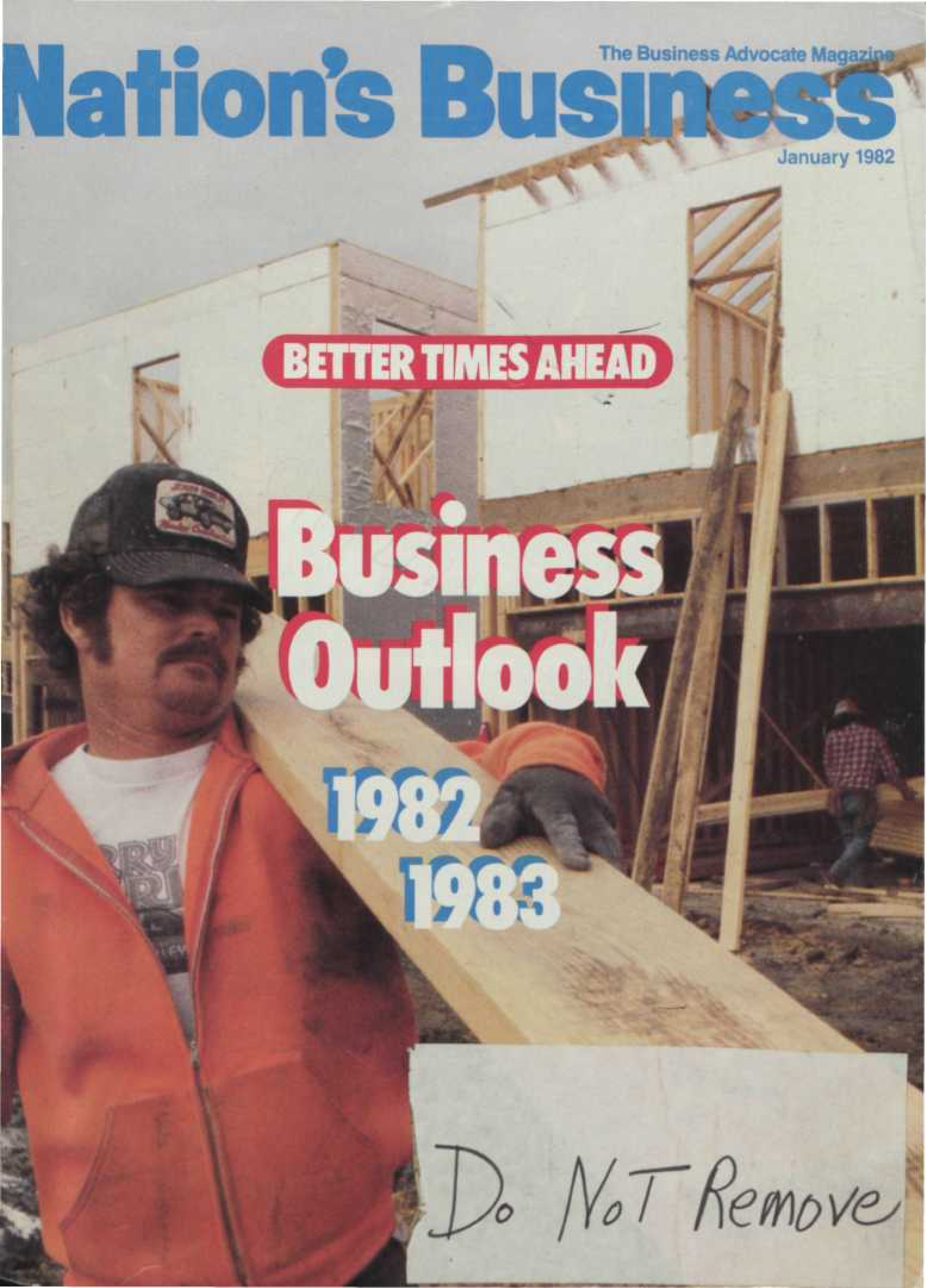
The Business Advocate Magazine

Nation's Business

January 1982



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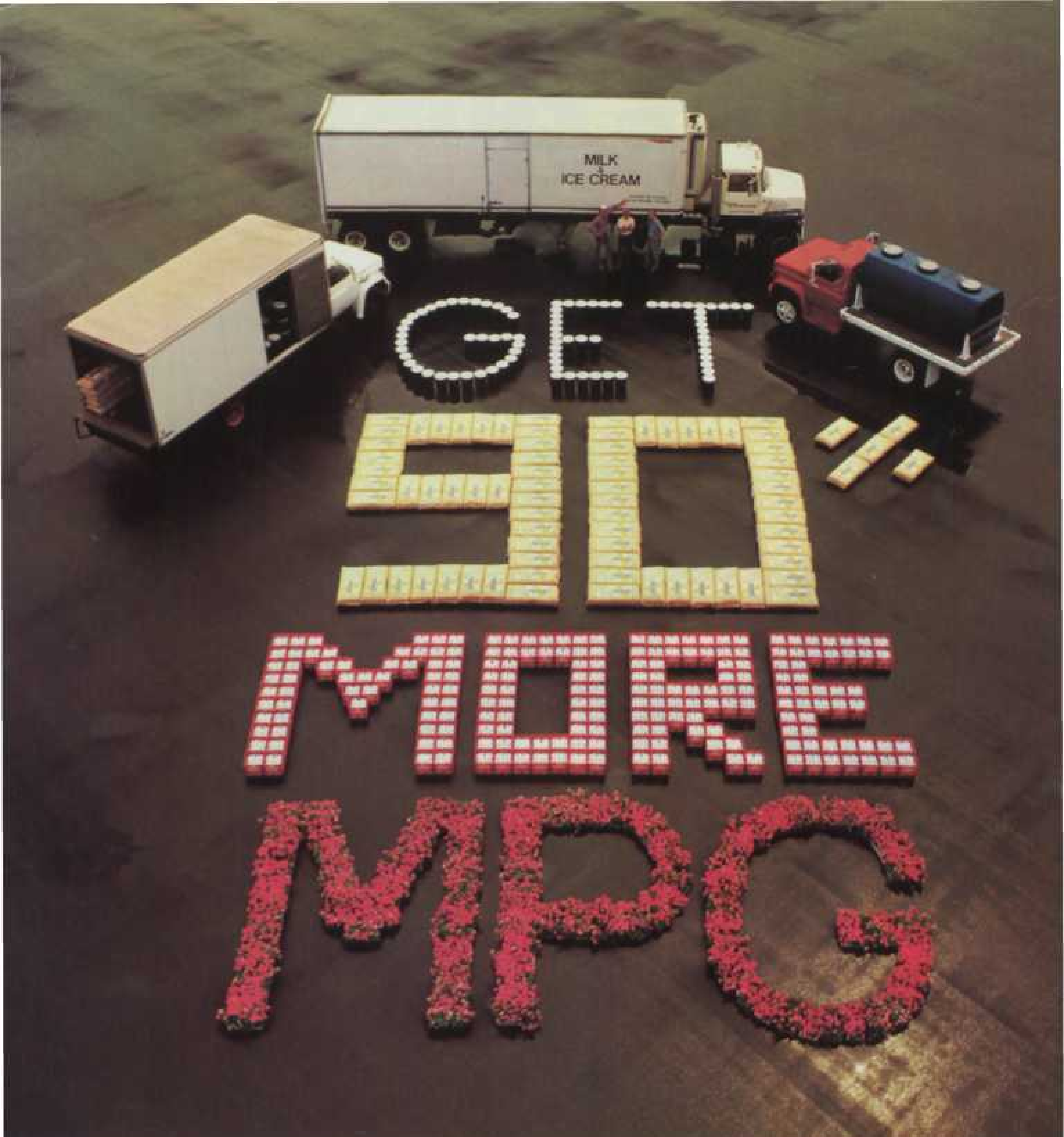

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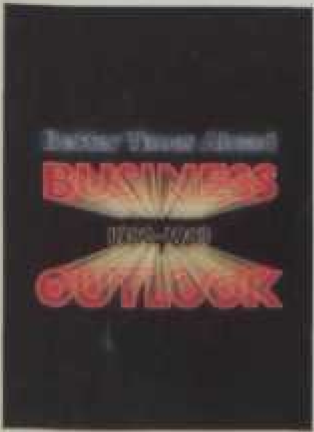
Nation's Business



Recovery on the Way
High inflation and interest will drop in the next two years. Ditto unemployment. That and other good news about the economy are in an authoritative forecast worked out for this magazine. **15**

Another Battle
Why is this man somber? He is Pete Domenici, Senate Budget Committee chairman, and he is facing a tough fight to end budget "chaos." Money issues top this year's agenda in Congress. **37**

Exported Expertise
Services—invisibles, as they're called—loom large on our export scene. Sales abroad by firms in such diverse fields as advertising and transportation have tipped the balance of payments. **42**

No to Negativism
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The executive who neglects common courtesy in dealing with job seekers is all too common. How do you bat in the field of insider-outsider relations?

"Patience Is the Key" **52**
The Arab world, a U.S. Chamber delegation reports, offers American business many opportunities. But to grasp them, certain requirements must be met.

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Joe Frissora's solar collector is effective in northern climes and on overcast days as well as sunny ones. He thinks the sky is the limit for his company.

Hurdling the Barriers to Creativity **68**
A Book Bonus. Excerpts from *New Product Development Strategies* discuss how executives can produce good ideas. A clue: Become more like a raccoon.

Take a Corporate Approach to Family Life **70**
You're more likely to be productive in your work if you have the support of your family. One way to get it: Set up a board of directors in the household.

Unwinding in Winter's Wonders **77**
More than 14 million Americans are snowmobilers. Why? It's a matter, says one businessman, of getting on that sled and riding "into a different world."

Cover Photo: Ken Kobre—Picture Group

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Nation's Business

WASHINGTON LETTER

▶ BUDGET POLICY is dividing Republicans into two camps. One group says deficits don't matter much. Other group says deficits do matter and taxes should be raised to cut them. Among former: Treasury and Council of Economic Advisers. In opposite corner: congressional conservatives and Office of Management and Budget. President Reagan dislikes both deficits and tax increases.

▶ IDES OF MARCH--Speaker Tip O'Neill says Democrats will propose alternative economic program, featuring new taxes, if administration program hasn't succeeded by March. Democrats are very concerned about deficits ... these days.

▶ RISE IN DEFICIT projected for fiscal 1982--from $42 billion to $109 billion--caused much confusion in capital, quips economist Herbert Stein, until officials explained that administration had merely switched from Celsius to Fahrenheit.

▶ RELUCTANCE of budget cutters to touch entitlement programs is source of growing concern to business community. Reason? Entitlements--such as Social Security, federal retirement, unemployment compensation--make up half of current federal budget. Exclude interest on debt and defense, and there's little left to cut. Also, payroll taxes that finance some of these programs are becoming increasingly heavy burden. If cuts are made, most likely targets are Medicare and Medicaid.

▶ DON'T BE ALARMED by dire predictions --riots, starvation, resurgent plague and other assorted disasters--currently leaking from nearly every agency in Washington. ("Hundreds of more people will be killed each year," warns Consumer Product Safety Commission.) It's all part of budget process. Bureaucrats and their constituents exaggerate effects of potential cuts in hopes that knife will slice less deeply. But there will be lots of blood when fiscal 1983 budget is revealed later this month.

▶ ADAPTABLE BUREAUCRATS are learning to phrase budget appeals in terms of Reagan administration concerns. Regulatory agency officials protest they cannot carry out deregulation plans if their staffs are cut too much. Federal economists say they may be unable to compile statistics that tell everybody how much the economy is benefiting from all the federal cost-cutting. And personnel chiefs point out that it is costly to fire federal employes: Severance pay, return of retirement contributions and unused vacation time amount to two thirds of annual salary.

▶ SCHEDULE for breakup of Energy Department: Within 60 days, legislation providing for reassignment or deletion of departmental functions will be sent to Congress. Allowing for several months of debate, actual dismantling would begin in early summer. DOE could be out of business completely as early as September, according to Secretary James Edwards.

▶ BIG CUTS loom for federal housing subsidies. Office of Management and Budget is said to be seeking 75 percent slash in program. Also in wind: switch to voucher system for delivering aid. Under present law, tenants qualifying for subsidized housing pay maximum of 30 percent of their income toward rent,

and government pays rest. Under voucher system, those eligible for program would receive fixed amount from government, then shop on open market for housing. Any difference between voucher amount and actual rent would have to be made up by recipient.

▶ MOVE UP NEXT TAX CUT, now scheduled for July? President Reagan has made some remarks indicating he is considering that change as recession-fighting measure. Probably won't be tried, though. Concern over deficit and budget cuts creates formidable political obstacles.

▶ BUSINESS LEADERS continue to have strong faith in Reagan program and are optimistic about future of U.S. economy, although most are currently buckling down for anticipated recession. That's news from latest semiannual business confidence survey, conducted in October and November by U.S. Chamber Survey Research Center. Some highlights: 60 percent--highest in survey series--say general business climate is becoming more favorable; 59 percent think Reagan economic policies will be effective; 64 percent think those policies will benefit all income groups equally; 88 percent say a balanced federal budget is important; 96 percent approve first round of budget cuts; and 92 percent favor additional cuts.

▶ "MIDNIGHT DUMPERS" take note: Environmental Protection Agency says it is now staffed to crack down on willful violators of pollution laws and is looking for some to make an example of--especially those ignoring terms of consent agreements previously signed with agency. Jail sentences, though rare, are not unprecedented.

▶ ENDANGERED SPECIES ACT, up for reauthorization this spring, is undergoing congressional review. Hearings began last month in Senate Environmental Pollution subcommittee. Environmentalists want to toughen law. Some business people and Reagan administration officials would like to soften what they see as excessively stringent provisions that can impede economic activity. But major push is unlikely. "It's a motherhood issue," sighs one weary business lobbyist. Outlook: probably a draw.

▶ FISH STORY: Snail darters--those little fish whose alleged endangered status nearly blocked construction of multimillion-dollar Tellico dam in Tennessee--have now been found in Alabama and Georgia as well as several places in Tennessee.

▶ FLOATING RATE savings bonds will be issued by Treasury if Congress approves, which may happen in February. New bonds would pay rate equal to 85 percent of average return on five-year Treasury securities over five-year period. Rate would be recalculated at six-month intervals. Bonds would also have interest rate floor, guaranteed to holders no matter what figure formula produces.

▶ CONSUMER PRICE INDEX (from Labor Department) is not the only federal statistical index facing revision. Commerce Department is pondering changes in composition of leading and lagging indicators. Objective is to improve their usefulness and reliability as forecasting tools.

▶ EXPORTERS who offer services will be able to get listings in special March edition of Commercial News USA. Publication is produced by Commerce Department and sent to more than 200,000 foreign business officials, government representatives and other prospective purchasers. Previously, Commercial News listed only new manufactured products available for export. For more information, call (202) 377-5131.

▶ "INTEREST RATES, particularly short-term rates, are coming down because the Federal Reserve has held to a policy of monetary restraint." Murray Weidenbaum, chairman, Council of Economic Advisers.

Here the lowest. There the lowest. Everywhere the lowest. Who's really the lowest?

All these different brands of cigarettes, each claiming to be the lowest in tar.

Just who are you supposed to believe?

Well, we say, why should a tar-conscious smoker have to put up with this kind of confusion?

Why should you have to do research in order to find out if you can trust the "lowest" tar claims of your cigarette?

So we've done the research for you. We've assembled the tar level numbers of all the leading cigarettes that say they're the lowest.

And the results are right here in the chart below—which can light up the situation before you light up another cigarette.

See for yourself what's what. (And what isn't.)

Numbers don't lie.

And they prove there's only one Ultra Lowest Tar™ brand—Now.

Box

Box 100s

NUMBERS DON'T LIE. NO CIGARETTE, IN ANY SIZE, IS LOWER IN TAR THAN NOW.

	80's box	85's soft pack	100's box	100's soft pack
NOW	Less than 0.01mg	1mg	Less than 0.01mg	2mg
CARLTON	Less than 0.01mg	1mg*	1mg	5mg
CAMBRIDGE	Less than 0.1mg	1mg	—	4mg
BARCLAY	1mg	1mg	—	3mg

All tar numbers are av. per cigarette by FTC method, except the one asterisked (*) which is av. per cigarette by FTC Report May '81.

NOW The Lowest

The lowest in tar of all brands.

Warning: The Surgeon General Has Determined That Cigarette Smoking Is Dangerous to Your Health.

BOX, BOX 100's: Less than 0.01 mg. "tar", 0.001 mg. nicotine, SOFT PACK 85's FILTER, MENTHOL: 1 mg. "tar", 0.1 mg. nicotine, SOFT PACK 100's FILTER, MENTHOL: 2 mg. "tar", 0.2 mg. nicotine, av. per cigarette by FTC method.

Tool for the Taxpayer

In the November Sound Off to the Editor, you consider monetary support of the United States Olympic Committee and make comparisons with other countries, in particular East Germany and Russia. The [statement] deals with the recent legislation introduced by Sens. Daniel K. Inouye (D-Hawaii) and Ted Stevens (R-Alaska) concerning the United States Olympic Development Fund Checkoff Act of 1981.

That bill, as submitted, would allow taxpayers to designate $1 ($2 if a joint return) of their tax refund to the United States Olympic Committee. In addition, the bill would allow taxpayers to enclose that amount, in cash, with their tax return if they are not entitled to a tax refund.

But your statement of the issue indicates that $1 of the taxpayer's tax could be designated for the U.S. Olympic Committee. In the clip-out form the question readers are asked to answer is, "Should tax revenues support America's Olympic athletes?"

Your question is inaccurate and unfairly suggests to your readership that tax revenues would in some way be used for the benefit of the United States Olympic Committee.

I would greatly appreciate your correcting this error so that your readers may understand the true nature of the U.S. Olympic Development Fund Checkoff Act of 1981.

F. Don Miller
Executive Director
United States Olympic Committee
Colorado Springs, Colo.

Editor's note: We regret the error. Though many Americans believe taxpayer dollars should be used to help support U.S. Olympic athletes, the legislation mentioned would merely provide a tool to help taxpayers contribute their own money to the U.S. Olympic Committee. See Sound Off Response, page 76.

As Southwestern regional finance chairman for the U.S. Olympic Committee, I strongly support the proposed legislation and believe that the possibility of giving every American the opportunity to contribute to the U.S. Olympic team's development of amateur athletics through a tax form check-off is a sound idea—one we should have adopted long ago.

Donald Zale
Chairman of the Board
and Chief Executive Officer
Zale Corporation
Dallas, Tex.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Social Security dilemma

Your article "Social Security: Is a Patchup Enough?" [October] failed to fully cover the matter. I would like to comment on the idea of requiring government employes to participate in Social Security.

First, there are 1,247,708 civil service annuitants and 427,452 survivors who would have to be brought under Social Security. If the system is going broke, how would this help?

Second, civil service retirees pay approximately $1.26 billion in federal income taxes and approximately $750 million in state and local taxes on their pensions. Under Social Security they would not pay these taxes, thereby reducing income to the U.S. Treasury.

Finally, the civil service retirement system was started 15 years before Social Security and has been a sound sys-

We're doing what has to be done.

Auto Theft.

Every 28 seconds, a vehicle is stolen somewhere in the U.S. Cost to the public: $4 billion a year. That's why Property-Casualty insurance companies work together to fight this crime.

With over 1,100,000 vehicles stolen in the U.S. last year, auto theft is not just a problem—it's an epidemic. One of every 143 registered motor vehicles is stolen, and fewer than 60 percent of them are recovered.

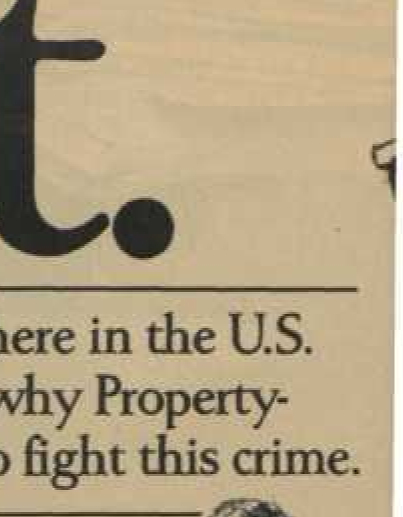
Owners of stolen vehicles are not the only victims. Auto theft costs the American public an incredible *$4 billion* a year. *And every car owner and taxpayer helps to pay that bill.*

Why this sudden surge in auto theft? Several reasons. For one, the lure of a fast and easy profit has attracted organized crime. Two men working in an illegal "chop shop" can disassemble a stolen vehicle in forty minutes.

The component parts are passed along for sale at almost pure profit. The endless supply of—and demand for—these parts creates a black market bonanza.

At the same time, the illegal export of stolen vehicles is rising. Experts estimate that as many as 20,000 stolen cars are shipped to Mexico, alone, every year.

Even ordinary citizens are becoming involved. Evidence mounts that many engage in auto theft and fraud schemes as a way of disposing of expensive "gas guzzlers."



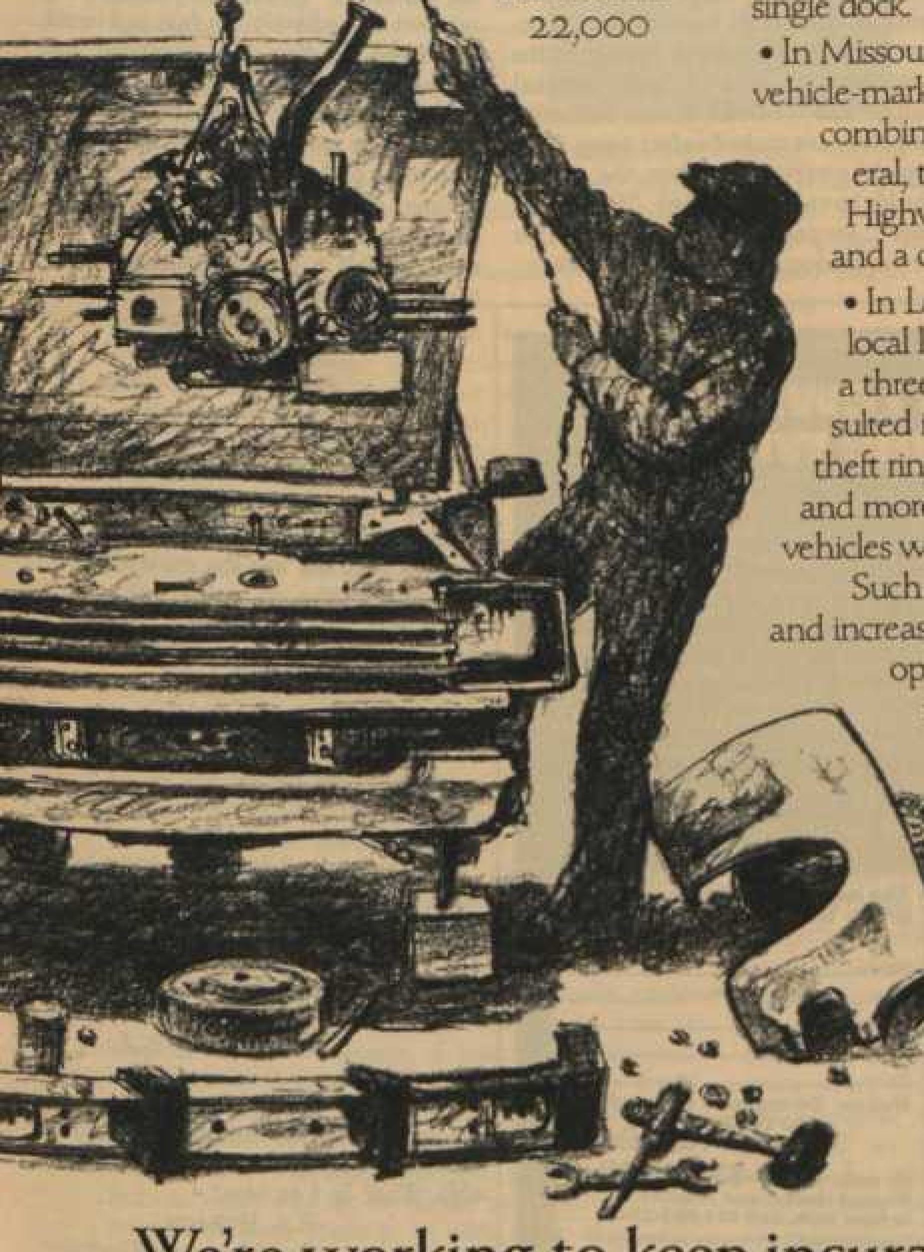
Action Needed...and Provided

Clearly, something has to be done. And, thanks to the combined efforts of the law enforcement, legal, and insurance

communities, something *is* being done.

Prominent in the fight is the National Automobile Theft Bureau, a non-profit organization funded by over 500 property-casualty insurance companies. The NATB combats auto theft through a wide range of educational, investigative, informational, and promotional services.

Last year, the NATB trained some 22,000 law enforcement officers in investigative techniques. It maintains an extensive computerized system of vehicle identification numbers and salvage records. And NATB agents help municipal, county, state, and federal authorities investigate and prosecute auto theft and fraud.



Success Stories

The National Automobile Theft Bureau's achievements have spanned the nation:

• In New York, the NATB recently joined with U.S. customs officials and the FBI in identifying automobiles awaiting export to Kuwait. Over 100 stolen vehicles were recovered on a single dock.

• In Missouri, the NATB helped sponsor a vehicle-marking, anti-theft program which combined the efforts of the Attorney General, the Police Chiefs Association, the Highway Patrol, 120 police departments, and a cooperative public.

• In Los Angeles, NATB officials joined local law enforcement agencies during a three-month investigation, which resulted in the break-up of a major auto theft ring. Seven suspects were arrested and more than $700,000 worth of stolen vehicles were recovered.

Such success stories are encouraging—and increasing. They show that the cooperative efforts of car owners and manufacturers, law enforcement agencies, legislators, insurance companies, and the public *can* be effective in reducing losses and in helping to slow the rise in the cost of insurance.

And that's an objective we all share.

We're working to keep insurance affordable.

This message presented by the **American Insurance Association,** 85 John Street, NY, NY 10038

tem. Federal employes have always paid more into their retirement system than private sector workers have paid into Social Security. They have also paid on their entire salary, while those under Social Security still do not pay on their entire wage.

DUDLEY A. THROWER
Bakersfield, Calif.

Editor's note: According to the Congressional Budget Office, the federal civilian pension system has a huge unfunded liability that could be as large as $840 billion in fiscal 1986.

Every plan imaginable to cure the Social Security system has been offered except one that seems logical.

All payments to the private corporate plans, as well as the Keogh plans and Individual Retirement Accounts, are deductible from current income and are not taxed until received. Let's treat Social Security the same way. This would make current deductions more palatable to the taxpayer, since he wouldn't be taxed on the Social Security he contributes each year.

Also, by removing the earnings limitation, retired employes would be encouraged to work and report their earnings. Recipients who depend solely on Social Security would still not pay any taxes, whereas affluent retirees would return a portion of their benefits through income taxes.

GLENN MICHAELS
Carver, Michaels, Taylor & Company
Muscatine, Iowa

Well adjusted leaders

Re: "That Was No Lady, That Was My Boss" [October].

In 10 years of experience in supervisory and managerial capacities, I've not seen the difficulties with female leadership Harriet Lerner speaks of.

If indeed she has seen enough of this "unconscious dread of the woman in power" to make such strong statements as "irrational fears of female authority and power, which persist in the unconscious of even the most rational adults," and "fears of female authority and power are tucked safely away from people's awareness," then the article should have been titled "Irrational Fears" or perhaps "Male Hang-Ups Versus Inadequate Female Leaders."

The points this author attempts to make about female leadership qualities are all equally important in a male leader. A well adjusted woman can be a mother, daughter, wife, lover and business leader, just as a well adjusted man can be a father, son, husband, lover and business leader. One who is not so well adjusted may fail in any one of these roles, or perhaps all of them, whether male or female, because they are human!

DORINA THOMPSON
Manager, Scheduling and Standards
Gousha/Chek-Chart
Cartographic Production
Comfort, Tex.

Students grade the test

Your article "Are You Entrepreneurial Material?" [November] caught my interest immediately. As fast as I could, I started reading the questions and found that my answers were right on target—until I got to question 7.

Well, I've never dated five or six girls at a time, or for that matter one girl at a time, and I never plan on dating a girl. I date men, though, and still consider myself a prime prospect for becoming an entrepreneur.

CANDICE JAMESON
Sales Director
G.T. Water Products, Inc.
Northridge, Calif.

I note this article is an excerpt from a book written by a woman. It is bad enough that she has the evidently narrow perspective to publish this in a book, but surely we business people don't have to be subjected further to such a 19th-century point of view.

JOAN M. VANDERBECK
Service Web Offset Corporation
Chicago, Ill.

The author is bonkers. I have been very successful for 31 years so far. I disagree on points 2, 3, 4, 5, 8, 9, 11 and 13. That's eight out of 14. I scored 60 (poor).

Someone ought to check these writers out.

NORMAN H. BRAGAR
Summit, N.J.

I took the test "Are You Entrepreneurial Material?" and failed miserably. What do I do now?

R.A. HUBACH
President and Founder
View Engineering, Inc.
Chatsworth, Calif.

BY JAMES J. KILPATRICK

A Report Card for Mr. Reagan

SO WE APPROACH the end of President Reagan's first year in the White House. By venerable custom, it is report card time. How fares the President?

On the whole, quite well. That would be the judgment, in any event, of most of us on the conservative side of the political spectrum, but the quality of presidential performance, like beauty, lies in the eye of the beholder. President Reagan would get poor marks from the National Association for the Advancement of Colored People. The National Organization for Women would manifest its disappointment. Leaders of organized labor might award him a D-minus, and the striking air controllers would flunk him flat.

Yet in fairness the President should be judged in terms of what he set out to do a year ago. He campaigned as a conservative; he won election in a conservative landslide; he promised liberals nothing—and on that promise he most certainly has delivered. It is curious that so many persons who denounce Ronald Reagan's performance seem to forget about the 1980 election altogether. I am generally leery of the word mandate, but surely that election had meaning. The people asked for change and not merely for a change in personalities—they asked for a change in political direction. They're getting it.

Every President has to be graded on leadership. We professors of the Washington press corps probably would agree that Mr. Reagan has earned an A for the course. In sharp contrast to his predecessor, he set out immediately to cultivate his supporters on Capitol Hill. In downright amazement we watched as the President won solid victories for his programs of budget cuts and tax reductions. Agree or disagree with the merits of those programs, there can be no denying the effectiveness of the Reagan leadership.

IN FOREIGN AFFAIRS, a B seems a reasonable grade. Maybe a B-minus. Thinking back on the year, I sense a certain clumsiness, a want of professionalism. A policy toward El Salvador was poorly developed. The President never should have permitted the sale of those five aircraft to Saudi Arabia to develop into so bitter a goal-line struggle. He was slow to learn a lesson that all Presidents must learn: At the presidential level, there is no such thing as an offhand remark.

But the President's November address to the National Press Club, in which he outlined his proposals for arms reduction, was a first-class performance. Our relations with Canada and Mexico seem to have improved marginally. At the Cancún conference, even if the President made no new friends among nations of the Third World, at least he made no new enemies.

Mr. Reagan gets another B for his appointments to office. The Reagan cabinet is a colorless outfit—colorless but competent. (On second thought, there is nothing colorless about Jim Watt in Interior, and there have been times when the Secretary of State might have been colored choleric.) In the White House itself, the management infield of Deaver, Baker and Meese has functioned as smoothly as Tinker, Evers and Chance. Treasury Secretary Donald Regan has proved himself a heavy hitter. Despite his embarrassing error of talking too freely to a tape recorder, Budget Director David Stockman has won high marks. The appointment of Sandra Day O'Connor to the Supreme Court was a political masterstroke. All in all, in choosing administrators to reflect his policies, Mr. Reagan has done well.

ONE MAJOR COURSE has to be graded incomplete. The President's economic program, manifested in his budget for fiscal '82, has scarcely begun to take effect. A year hence we will have a better idea of whether his dramatic tax reductions will in fact spur the capital investments so urgently needed. The new year begins in the midst of a recession of unknowable severity, brought on by forces beyond the control of any President. About all that can be said at the moment is that inflation seems to be abating, and interest rates are softening. And if it had not been for the reductions in outlays voted by Congress, things would be far worse than they are. Next semester should be better.

Finally, a solid A on personal performance. From his formal-dress inauguration to his television appearances to his elegant state dinners, Mr. Reagan has provided a class act. Few Americans, whatever their view of his political philosophy, will forget the grace under pressure he displayed when he walked into a hospital with a bullet in his chest. During this first year we formed perceptions of Reagan firm, and Reagan charming, and Reagan easygoing, and once or twice of Reagan angry, but there was never an impression of Reagan mean-spirited or vindictive. He wears well, this gentleman. If the President can keep the pace for three more years, he will make Phi Beta Kappa yet. □

America's Hidden Energy Crisis

ELECTRIC UTILITIES IN JEOPARDY MEAN A NATION IN JEOPARDY

By Alvin L. Alm

Director, Energy Security Program, Kennedy School of Government, Harvard University

Alvin L. Alm has been involved in analysis and direction of U.S. energy policies for many years. He served on the White House Energy Policy and Planning staff in 1977 and was Assistant Secretary for Policy and Evaluation in the U.S. Department of Energy 1977-1979. Previously, he was Assistant Administrator for Planning and Management in the U.S. Environmental Protection Agency.

The investor-owned electric utility industry is in financial trouble. State public utility commissions, reacting to public anger over rising electricity rates, have squeezed utility earnings and returns to investors so that capital improvements have been delayed or denied.

Some of the effects of short-sighted utility regulation will be felt soon, others will be passed on to our children. All are reasons for urgent national concern now:

1. Cutting utility earnings or curtailing capital investment will eventually cost the public more money.

Lower credit ratings and equity values resulting from eroding earnings increase interest costs which are eventually borne by the consumer. Deferral of needed capital investments will only shift costs to the future.

2. Continued deferral of capacity investments may lead to serious reliability problems in some areas, including brown-outs and black-outs.

Demand growth remains high in some regions. In some low-growth areas, demand forecasts may be unusually conservative and demand may accelerate because of changing economic factors. With so much of our economic future tied to electricity-intensive high technology industries, it is vital that we have sufficient capacity to keep the electric system dependable. If necessary investments are not made, electric utilities could follow the same downward spiral of services that railroads have experienced.

3. Substantially higher rates or less reliable service could drive industry, jobs and taxes right out of the country.

A number of foreign countries are now courting new manufacturing industries with the lure of cheap and dependable electricity. An undependable electric system might prod many U.S. firms to embrace these offers.

4. Lack of capital to reduce oil use adds to higher inflation, balance of payment outflows and decreased national security.

Many electric utility capital requests to finance projects to "back out" oil are denied because they would initially raise electric rates. With our current level of vulnerability, continued use of oil for baseload generation makes no sense.

Given these compelling reasons, can we rescue our investor-owned electric utility industry without government bail-outs and fast enough to avoid chaos? It seems to me that progress along the following lines is essential:

Utilities must be able to earn a rate of return comparable to equivalent investments.

Returns that are considerably below low-risk money market funds or utility bonds, and even lower actual cash earnings, are sapping utilities' strength and causing capital costs to increase.

Utilities should be rewarded for cost-savings improvements.

These improvements would include reducing capacity additions and oil use — the two most significant reasons for rate increases.

Public utility commissions must permit company managements to be more innovative.

Utilities must be able to meet future needs through measures that make sense in their service areas, including conservation, rate reform, cogeneration, small-power technologies as well as more efficient generating facilities.

Restoring the financial integrity of investor-owned electric utilities is crucial if this nation is to have a strong economy and a healthy society. An industry that is financially strapped, heavily in debt and enervated from constant battles with state regulatory commissions is in no shape to meet urgent national needs. Through reasonable regulation, state commissioners will serve not only the interests of the people of their individual states but also of the nation as a whole.

Alvin L. Alm

Alvin L. Alm

Better Times Ahead

BUSINESS 1982-1983 OUTLOOK

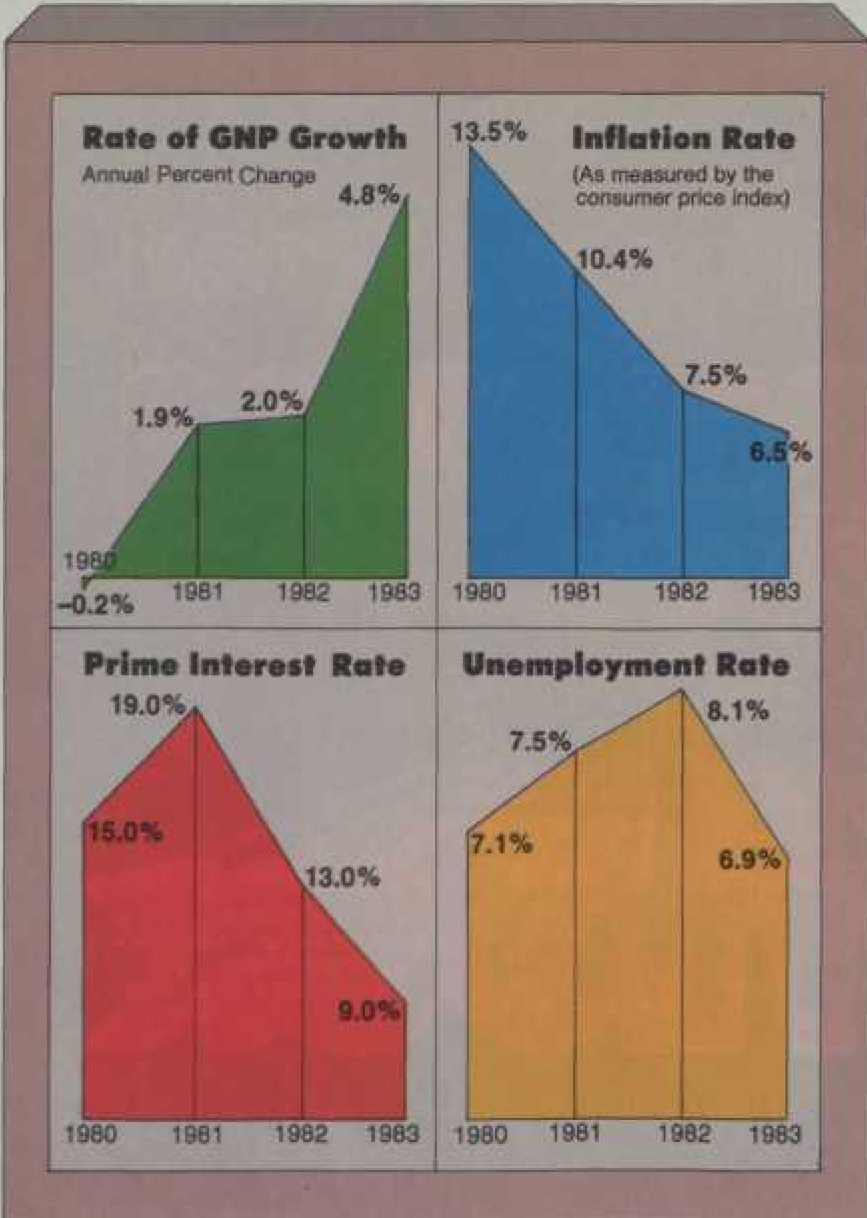
Do you believe that people respond to economic incentives? That the private sector will benefit if the public sector's growth rate is slowed? That if you tax something more, you get less of it, and vice versa? That a major change in national economic policy requires more than a few months to produce noticeable results?

The editors of NATION'S BUSINESS have been troubled by a suspicion that the excessively gloomy economic forecasts of the last few months were produced by people who do not hold such beliefs (or do, but ignore them for political reasons). What would happen, we wondered, if you took one of the big computerized econometric models, told it to assume that the answer to each of the above questions was yes (to oversimplify a bit) and then asked it to predict economic conditions for this year and next?

Such a project was proposed to the staff of the U.S. Chamber Forecast Center, the economic forecasting arm of the U.S. Chamber of Commerce. The resulting forecast is the product of melding the Chamber's matchless Washington savvy, the analytical expertise of its economics department and the sophisticated econometric model maintained by Data Resources, Inc., Lexington, Mass. We think you will find it useful and encouraging.

The methodology is described on page 32, where you will also meet some of the people who produced this report.

ECONOMIC OUTLOOK 1982-1983



The Growth That Lies Ahead

(Annual percent change in constant dollars)

	1980	1981	1982	1983
GNP	-0.2%	1.9%	2.0%	4.8%
Consumption	0.5	2.7	2.7	4.3
Durables	-7.4	3.6	7.1	8.2
Nondurables	1.1	2.4	2.4	2.7
Services	2.6	2.7	3.0	4.3
Business fixed investment	-3.0	2.7	5.0	6.8
Equipment	-4.2	1.8	6.1	7.0
Structures	-0.1	4.7	2.2	6.3
Federal government, total	6.4	1.3	1.2	-0.4
Defense	5.7	3.7	6.5	6.6

THE U.S. ECONOMY, which was starting to gasp for air as 1981 ended, should get its second wind momentarily and take off again. After two turgid years, the business outlook is rosy:

- 1982 will be a good year.
- 1983 will be even better.

Real—inflation-adjusted—growth in the gross national product is expected to be 2 percent for 1982 and a robust 4.8 percent in 1983.

Is that good? GNP limped along at 1.9 percent in 1981 after actually declining 0.2 percent in 1980.

The reason for the anticipated improvement: High inflation and high interest rates—those twin furies of economic disaster—will both decline.

Expect a prime rate of 12 percent by the end of 1982—it should average 13 percent for the year—and a 7.5 percent rise in the consumer price index.

For 1983 the prime will average 9 percent and the CPI 6.5 percent.

Unemployment will average 8.1 percent in 1982 and 6.9 percent in 1983.

Two of last year's most troubled industries—housing and autos—will rebound strongly this year and next, helping to lead the recovery. Boosted by falling interest rates, housing starts will recover to 1.4 million for 1982, up 300,000 units from a dismal 1981 record, and new-car sales will reach 10 million, compared with 8.7 million last year—but still below the 11 million of 1977 and 1978.

Here is the background for those encouraging developments:

Persistent high inflation, high interest rates and credit restrictions precipitated an "air pocket" recession with a huge 9.9 percent GNP decline in the second quarter of 1980. Following a brief recovery, 1981 was marked by widespread declines in most sectors, with motor vehicles, farm machinery, housing and related industries bearing the brunt of the downturn. By the fourth quarter, relief in the form of lower inflation and falling interest rates had laid the foundation for an economic rebound.

The projected economic growth will be buoyed by business' fixed investment, encouraged by the tax provisions in the Economic Recovery Tax Act of 1981. Capital investment—which usually lags other sectors in a recovery period—is expected to exceed GNP growth in 1982. Most of the 1982 expansion will occur in nonresidential investment in

President Reagan issues marching orders to (from left) Murray L. Weidenbaum, chairman of the Council of Economic Advisers; Treasury Secretary Donald T. Regan; and David A. Stockman, director of the Office of Management and Budget.

The Supply Side of the Story

The debate over supply-side economics is really a debate over how to stimulate economic growth. Supply-siders believe that people respond to economic incentives. So, if an economy is not growing, the incentives are lacking, insufficient or perverted.

Labor, capital and human ingenuity are the raw materials that create and sustain economic growth. The worker may choose to work harder (or longer), or to work less and enjoy more leisure time. The holder of capital must choose between consumption and investment, and productive and unproductive investment.

It is potential after-tax income, supply-siders say, that determines how workers and investors make these decisions. Therefore, if more economic growth is wanted, the reward for productive effort and investment—after-tax income—must be increased. And the way to do that is to reduce marginal tax rates.

A policy that stimulates investment also stimulates the prerequisite to investment: saving. Investment increases supply, supply-siders believe, and at the same time increases demand because the process of investment creates new jobs and new markets. Further, they believe that the resulting increase in income will be sufficient to purchase the new goods and services produced, with enough left over to provide for higher production later.

Demand-side, or Keynesian, theory holds that if the economy is stagnant, it is because people are not buying. The way to stimulate consumption is for the government to put money in the hands of those most likely to spend it—usually low-income groups. If people are willing and able to spend, the theory goes, then business will increase production to accommodate their wishes.

What's missing from this equation, the supply-siders point out, is an incentive to invest in new productive facilities. If government money is too easy for some people to get, and if marginal tax rates are too high for others, the incentives to work and to invest are diminished. Consequently, the money that is intended to stimulate demand simply bids up the price of existing goods.

No reputable economist denies the important role of incentives in an economy. Supply-side critics, however, say that the supply-siders are expecting an unrealistically large return on their tax-cut investment. They wonder who will do the buying if everybody is saving. And they question whether the increase in saving can be large enough to keep interest rates down when the borrowing needs of the federal government are going up rapidly.

Supply-siders respond that it is quite possible for a reduction in marginal tax rates to stimulate an increase in saving greater than the amount of the tax cuts. And they add that a saving increase does not have to be balanced dollar-for-dollar by a reduction in consumption spending, since incomes will be larger in a growing economy, and further, much of the increase in investment will come from less productive saving that had formerly escaped taxation.

A tougher question is whether the Reagan administration's policies constitute a fair test of supply-side theory. Hard-core supply-siders wanted larger tax cuts effective immediately. The cuts actually enacted are strung out over three years, and worse—from the supply-side perspective—they are barely large enough to offset Social Security tax increases and the effects of "bracket creep."

durable equipment. Overall, the surge in investment is expected to be centered in such industries as electrical and nonelectrical machinery, rubber and plastics, and petroleum.

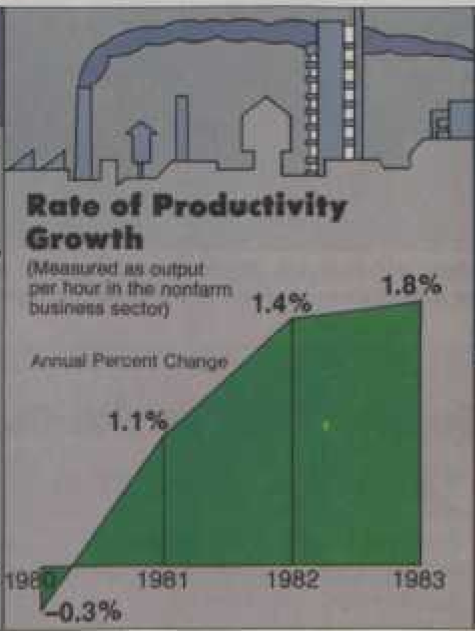
Productivity growth—output per hour in the nonfarm business sector—is projected to improve from 1.1 percent in 1981 to 1.4 percent in 1982 and 1.8 percent in 1983. Higher productivity is an important element in the overall economic improvement. It is the source of larger buying power for consumers and at the same time makes the U.S. more competitive in world trade.

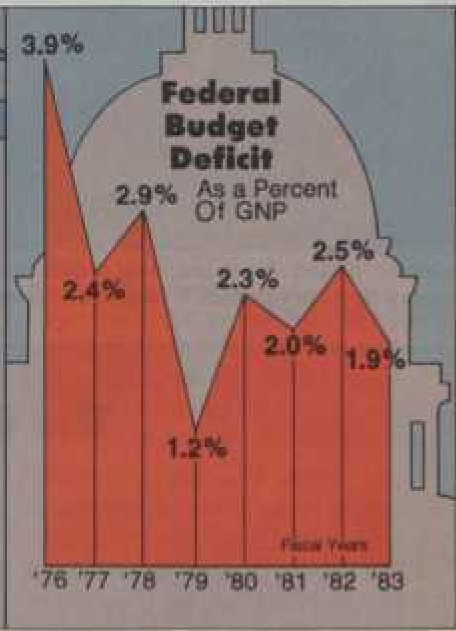
Growth in consumer spending, net of inflation, is forecast to rise 2.7 percent in 1982 and a strong 4.3 percent in 1983. This growth will be led by increased real outlays for consumer durables as a result of expected improvement in consumer attitudes and buying power. Growth in real spending on consumer nondurables is expected to be below average, while growth in outlays for consumer services will be in line with the overall trend in consumption.

Although the share of the federal government sector is expected to fall, real defense expenditures are forecast to grow 6.5 percent in 1982 and 6.6 percent in 1983.

Federal policies expected to promote the recovery include a continuing reduction of the regulatory burden on business, additional pressure against auto and steel imports, and some easing of the Federal Reserve's tight money policy (though not enough to be inflationary).

The forecast also assumes that none of the President's tax cuts will be rolled back, that federal excise taxes will not be increased and that more cuts in nondefense federal outlays will be made in





1982 and 1983. The federal budget deficit—which so troubles some commentators—will rise to 2.5 percent of GNP in fiscal 1982 before dropping to 1.9 percent in 1983. For comparison, it was 2 percent of GNP for fiscal 1981 and 3.9 percent for 1976.

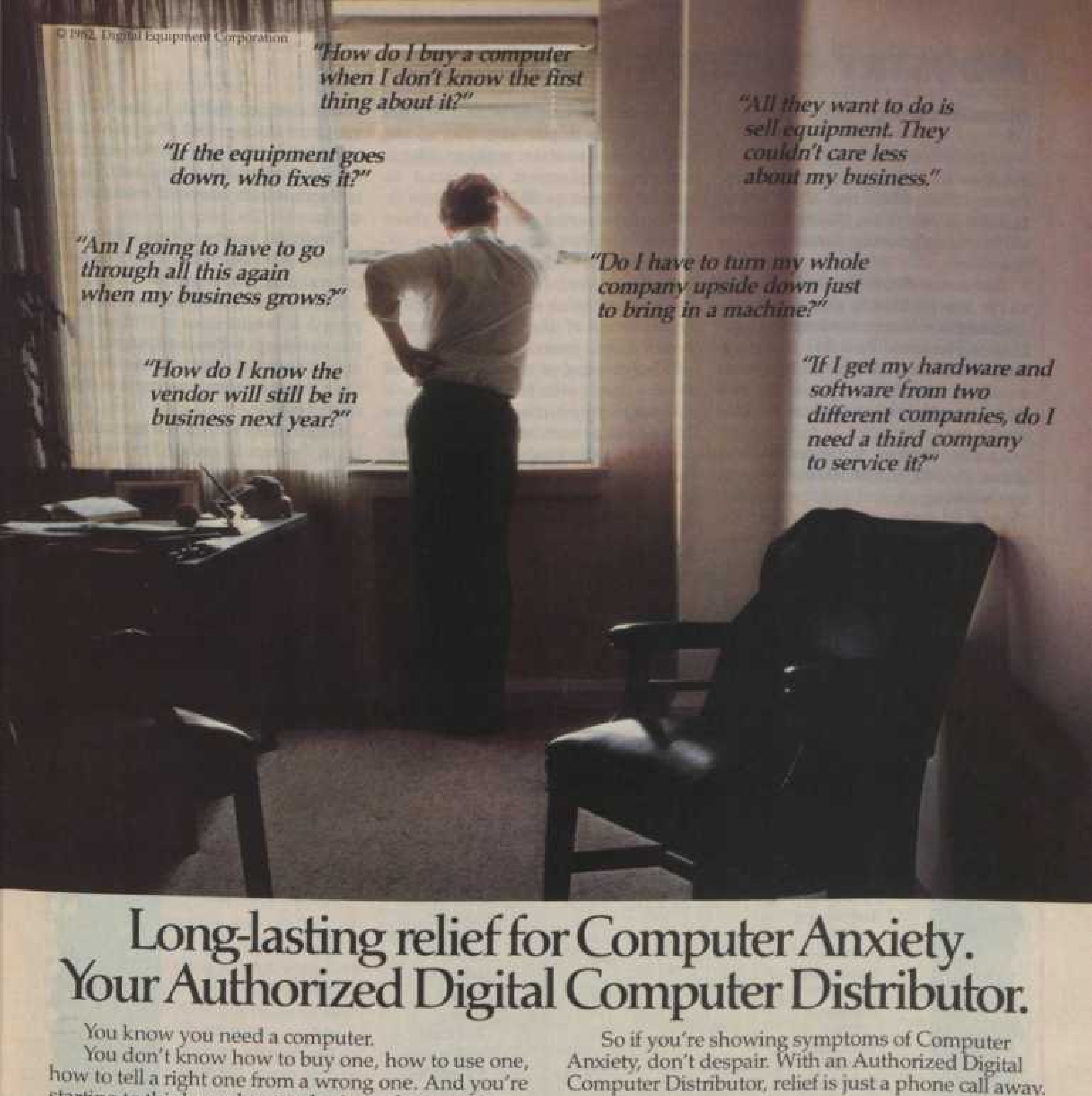
In sum, if all goes as planned, 1982 will be a good year; 1983 even better.

Housing and autos—two industries hard hit by high interest rates—will rebound strongly as rates fall, helping to lead the recovery.

The sector-by-sector outlooks that follow depend on the forecast for the overall economy. Important in that forecast were personal tax rate reductions, depreciation reform, increased tax credits for business and a slowdown in the growth of federal outlays.

The outlook for each sector was assessed by analyzing growth patterns in employment, industrial production, plant and equipment expenditures, gross effective capital stock, personal consumption expenditures, prices and productive capacity.

Two-year projections are offered only for the economy as a whole. The forecasts for individual sectors are for 1982 alone.



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INDUSTRY OUTLOOK 1982

Manufacturing

Manufacturing is very sensitive to changes in the aggregate economy. During 1980, when real GNP fell to $1,480.7 billion (from $1,483 billion in 1979), manufacturing turned sharply downward.

This sector recovered slowly in 1981 and is now forecast to gain strength in 1982 as the economy recovers from the current recession. Recovery in the aggregate economy will be led by the recovery in manufacturing, and most of that strength will come from durable goods.

As the demand for manufactures grows in 1982, industries will respond by boosting investment spending. Thanks to expectations of greater demand, improved cash flow and a reduction in interest rates, real capital spending will rise 1.4 percent in 1982 in durables and 8.3 percent in nondurables.

Growth in manufacturing jobs is slowly giving way to employment growth in services and other sectors. Nevertheless, the projected strength of this sector will keep near-term employment growth in line with that of the entire private nonfarm economy. Manufacturing employment is forecast to rise 0.8 percent to 20.5 million jobs in 1982—an expected increase of about 170,000 from 1981.

By mid-1982 the potential for increasing sales in manufacturing will be accommodated by an expansion of capacity. In terms of the Federal Reserve Board index, manufacturing capacity will be growing at an annual rate of about 3.5 percent in 1982.

Industrial production will rise from a 3.3 percent growth rate in 1981 to 4.7 percent in 1982. Production in the durables subsector will grow 6.7 percent, compared with a projected rate of 2.1 percent for nondurables.

Durables

Lumber and wood, furniture, primary metals, fabricated metals, nonelectrical machinery, electrical machinery, transportation equipment, instruments, stone, clay and glass.

Growth in both employment and real output declined sharply in this volatile subsector during 1980. The weakness, reflected in the poor performance of manufacturing as a whole, contributed to the slowdown in overall economic activity.

Conditions improved during 1981, but growth was deterred by high interest rates and high inflation.

Growth in durables will outpace growth in nondurables in 1982 and lead the recovery in manufacturing. The fastest-growing industries are expected to be transportation equipment and fabricated metals.

Employment in durables manufacturing is forecast to grow 1.7 percent this year, compared with a 1.6 percent rate in the nonfarm private sector and 0.8 percent in manufacturing as a whole. All the new manufacturing jobs expected in 1982 will be in durables. Employment in the subsector is forecast to reach 12.4 million in 1982.

Most of the increases will come in the nonelectrical machinery and transportation equipment industries. With the exception of fabricated metals, there is no appreciable improvement in employ-

Annual Rates of Growth In Manufacturing Output and Employment for 1982

Durables	Output	Employment
Durables	6.7 %	1.7 %
Lumber and wood	-0.1	7.2
Furniture	1.1	3.6
Stone, clay and glass	0.4	4.5
Primary metals	-0.1	4.1
Fabricated metals	1.6	8.3
Nonelectrical machinery	3.4	6.8
Electrical machinery	-0.3	4.1
Transportation equipment	5.1	14.0
Instruments	0.1	4.8
Miscellaneous	-1.1	-0.4

Nondurables	Output	Employment
Nondurables	2.1 %	-0.4 %
Food and food products	-1.8	2.1
Tobacco	-3.2	-0.5
Textiles	1.6	2.6
Apparel	-0.7	4.2
Paper	-0.7	1.1
Chemicals	-0.8	1.9
Printing and publishing	1.0	1.9
Petroleum	-1.2	0.6
Rubber and plastics	-0.7	4.8
Leather	2.9	2.0

ment foreseen in the remainder of the subsector.

Capital expenditures in durables manufacturing will grow steadily in 1982 in response to improved business conditions and corporate financial positions. Following the 3.4 percent decline estimated for 1981, real capital expenditures in this subsector will rebound to an annual growth rate of 1.4 percent. The growth in capital spending in durables manufacturing represents an increase of about $400 million from 1981 to 1982.

The largest real outlays will occur in electrical and nonelectrical machinery. Within the primary metals industries, real capital expenditures are expected to rebound to above-average rates, reaching $1.5 billion this year, an increase of about $100 million from the 1981 level.

Nondurables

Food products, tobacco, textiles, apparel, paper, chemicals, printing and publishing, petroleum, rubber and plastics, and leather.

Activity in this subsector deteriorated during 1980 as the recession spread. Growth slowed during the first half of 1981 because of inflation but responded favorably as inflation ebbed during the second half. Growth will continue in 1982.

Although the subsector is expected to show below-average rates of growth in production, some industries will perform just as well as or even better than the economy as a whole. Most of the subsector's strength in 1982 will come from apparel, textiles, and rubber and plastics, which will benefit from overall improvement in the economy. For some industries—rubber and plastics, for example—the recovery in housing and autos will boost profit margins.

In 1982 production in apparel and in rubber and plastics will grow in line with or faster than the whole manufacturing sector.

For petroleum refining, production should recover in 1982, but the lingering effects of severe downturns in 1980 and 1981 will sap the industry's strength. Also, rising energy prices, continued conservation efforts and weak business conditions in foreign economies will slow the growth in demand for energy.

Even though capital spending in nondurables will reach above-average rates of growth in 1982, employment growth is expected to slow. Strong growth in real plant and equipment spending will occur in the rubber and plastics industry. At the same time, employment in nondurables will decline 0.4 percent annually, with the largest reductions in the food and tobacco industries.

Construction

General building contractors, heavy construction contractors (public works and industrial construction) and special trade contractors (plumbing, heating, electrical, etc.).

The construction industry, already depressed in 1980, was one of the hardest hit by the 1981 recession. Construction activity worsened through 1981. Residential construction, both private and public, declined sharply in 1981, and housing starts fell by an estimated 200,000 units for the year.

Nevertheless, the overall economic outlook for the construction sector is optimistic. In 1982 both residential and nonresidential building activity will show a sharp turnaround as mortgage rates decline and real incomes rise.

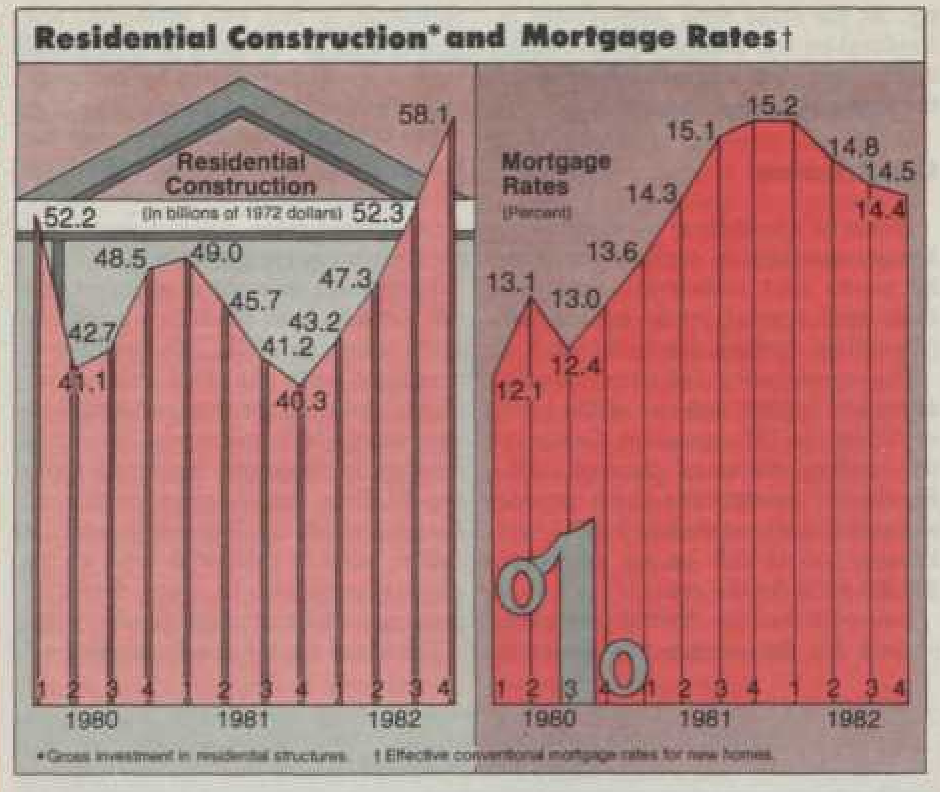
The savings incentives in the new tax law will stimulate growth in lendable funds. That, along with lower short-term interest rates, will put downward pressure on mortgage rates in 1982.

Investment in residential structures will increase from $44 billion in 1981 to $49.8 billion in 1982. This increase is consistent with the 1982 rate of increase projected for total residential investment, 12.7 percent. The 1982 recovery in residential construction will benefit from the all-savers certificate. Housing starts are forecast to total 1.4 million units in 1982, with most of the growth expected to stem from increases in starts of single-family units.

The sharp decline in employment reg-

Construction

	Levels			Annual Percent Change		
	1980	1981	1982	1980	1981	1982
Gross fixed residential investment						
(In billions of 1972 dollars)	48.1	46.1	51.9	−18.6%	−4.3%	12.7%
Residential construction	46.1	44.0	49.8	−19.2	−4.6	13.1
Housing starts						
(In millions of units)	1.3	1.1	1.4	—	—	—
Single-family	0.9	0.7	0.9	—	—	—
Multiple-family	0.4	0.4	0.5	—	—	—
Additions and alterations						
(In billions of current dollars)	22.4	25.1	29.9	17.6	12.2	19.2
New construction put in place						
(In billions of current dollars)	52.6	58.7	60.9	11.9	11.5	3.8
Industrial	13.9	16.5	16.2	−6.7	18.5	−1.9
Commercial	30.0	32.8	33.3	21.7	9.4	1.5
Nonprofit institutions	8.0	9.3	11.4	17.0	7.9	22.1
Total new public construction						
(In billions of current dollars)	55.8	53.1	49.3	15.1	−5.0	−7.0
New mortgage commitments						
(In billions of current dollars)	87.1	67.5	105.5	−32.5	−22.5	56.3
Prices						
Implicit price deflators (1972=1.00)						
Private residential construction	2.22	2.37	2.53	9.4	6.7	7.0
Private nonresidential construction	2.25	2.46	2.65	13.4	9.2	7.8
Expected inflation, new-home price	9.6	7.5	7.7	—	—	—
Median sales price,						
New single-family homes						
(In thousands of dollars)	64.9	69.6	75.8	3.4	7.4	8.8
Employment (In millions)	4.40	4.31	4.35	−1.3	−2.2	1.0



Residential Construction* and Mortgage Rates†

*Gross investment in residential structures. †Effective conventional mortgage rates for new homes.

PHOTO: JAY GROFF

Rising real income and falling mortgage rates will spur new construction.

istered in 1981 is expected to be reversed to a 1 percent increase for 1982. Employment in this sector will reach 4.4 million, a 40,000 increase from the 1981 level.

The increase in construction demand and the strength in the economy generally will cause housing prices to rise much faster than in 1981. The median sales price of a new single-unit home is expected to be $75,800 in 1982, 8.8 percent higher than the 1981 level.

This increase is anticipated largely because demand will outpace the industry's ability to expand supply. As economic conditions become more favorable in the longer run, the sector will enjoy robust economic growth.

Transportation And Public Utilities

Air, rail and water transportation, local and interurban passenger transit, trucking and warehousing, pipelines (except natural gas) and communications.

The 1982 economic outlook for transportation and public utilities is not as optimistic as it is for other industrial sectors. Growth within this sector was severely hampered by government regulations and sluggish economic conditions during 1980 and 1981. Deregulation and economic strength will lead to a slow recovery in 1982.

Government action to phase out operating subsidies for mass transit could result in a shrinkage in the market, with cutbacks in orders, skyrocketing fares, job losses and some business failures.

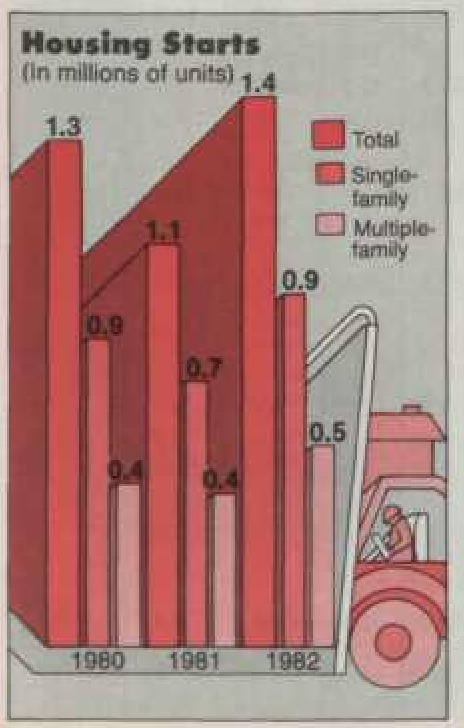
On the positive side, increased cost pressures will encourage efficiency, and lower inflation and interest rates will provide some relief. The benefit to taxpayers cannot be ignored, either.

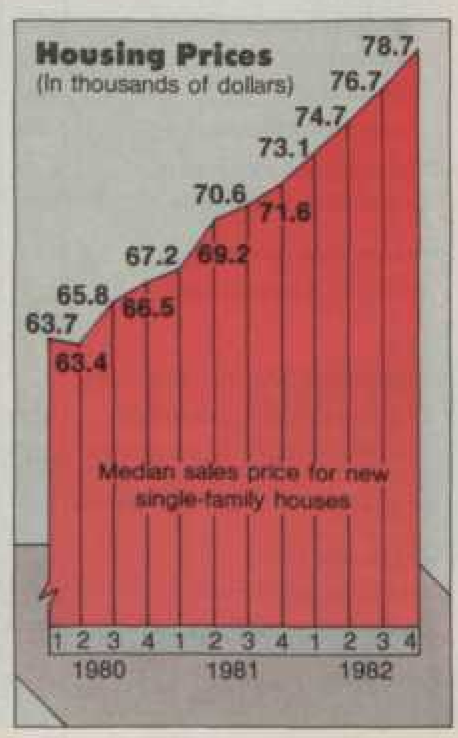
Although transportation industries are expected to grow slowly in 1982, they will show improvement over 1981:

- Auto sales to the rental and leasing industry will increase as real incomes rise and import restrictions get tighter.
- The demand for trucks, trailers and rail transportation will rise as freight shipments increase with the economic recovery.
- Aerospace industries will benefit from deregulation and the increase in military spending.
- Pipeline traffic will increase with modest increases in energy demand.
- Discount fares and industry deregulation will give air transportation a lift.

Communications industries will benefit in 1982 from Federal Communications Commission actions to promote competition. The FCC will permit an increase in the number of television and radio stations, to promote diversity in programming and opportunities for minority ownership, thereby stimulating programming demand and capital expenditures. New technology will keep this industry in the forefront of growth over the next decade.

Consistent with the modest growth anticipated for transportation and communications in 1982, employment will





rise moderately. Between 1981 and 1982 employment is forecast to increase by 23,000 jobs to 5.2 million.

Mining

Metals, bituminous coal and lignite, oil and gas extraction, and nonmetallic minerals (except fuels).

Although growth in most industrial sectors declined during recession-marred 1980, it continued in mining. The sector was buoyed by the strong performance of the oil and gas industries. Growing demand for energy and raw materials—along with oil price decontrol in 1981—stimulated mining output and assured sustained growth. In 1982, however, the mining sector as a whole will weaken.

Investment in the mining industries is expected to grow at above-average rates during 1982, though not as rapidly as in 1981. Real plant and equipment expenditures will grow at an annual rate of 3.9 percent in 1982—an increase of about $300 million from the projected 1981 level and about $1.3 billion from the 1980 level.

The projected slowdown in the rate of capital spending in 1982 is consistent with the expected deceleration in production. Annual growth in mining production will slow from 7.2 percent in 1981 to 1.6 percent in 1982, far below the anticipated overall industrial average of 4.3 percent growth.

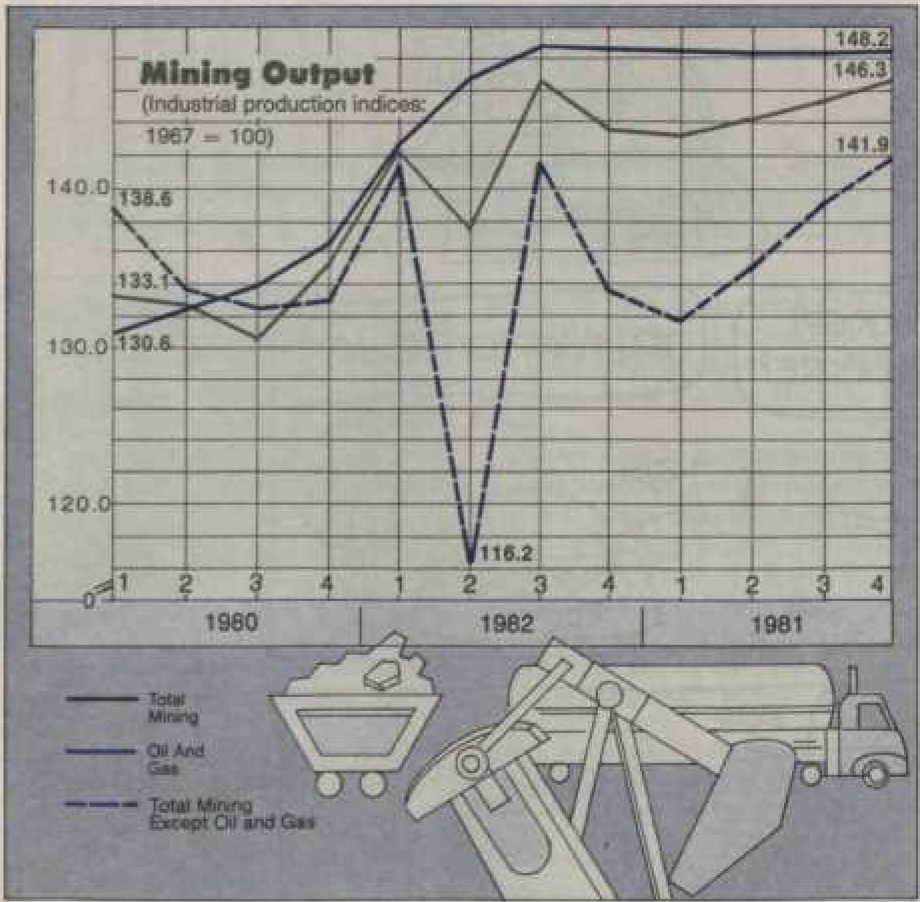
The weakness will occur primarily in the oil and gas industries, partly in response to greater automotive fuel efficiency. In 1982 average fuel efficiency of the nation's automobiles will reach 16.5 miles per gallon, compared with 14.8 in 1980—more than an 11 percent improvement. In addition, gains will continue to be made as more emphasis is placed on conservation. These factors will retard growth in the demand for oil and gasoline, causing a slowdown in the growth of production in this sector.

Industries within the mining sector that are expected to perform well in 1982 include metals, coal and nonmetallic minerals. For the most part, those fields will respond favorably to the recovery in the automobile and construction industries—the major users of metals and nonmetallic minerals.

Employment growth in the mining sector will be 5.6 percent for 1982, much faster than the 1.6 percent growth expected for all private sector employment this year. Mining employment is expected to be higher by 62,000 jobs for the year.

Growth in mining exports—largely coal—is expected to outpace growth in mining imports as the world economy strengthens, creating a positive mining trade balance.

Late in 1982 and thereafter, growth in the mining sector is expected to accelerate as the long-term effects of the 1981 tax provisions for capital formation gain momentum and steps to decontrol natural gas have a bigger effect.



Mining

	Levels			Annual Percent Change		
	1980	1981	1982	1980	1981	1982
Plant and equipment expenditures (In billions of 1972 dollars)	6.7	7.7	8.0	7.4	14.3	3.9
Gross effective capital stock (In billions of 1972 dollars)	57.5	62.0	66.5	6.6	7.9	7.2
Employment (In millions)	1.02	1.09	1.16	6.5	7.2	5.6
Indices of mining productivity (1967=100)	46.1	45.9	45.8	−0.8	−0.5	−0.2

Wholesale and Retail Trade

Trade in durable and nondurable goods, merchandise stores, food stores, automotive dealers, apparel, furniture, and eating and drinking places.

The 1980 recession severely hurt sales in the wholesale and retail industries. Wholesalers provide the link between manufacturing suppliers and consumers, and in most cases, pressures in the wholesale sector are transferred to the consumer sector.

Tight money depressed sales for suppliers of durable goods, particularly products for the housing industry—lumber, plumbing, hardware and other construction materials. Nondurable wholesalers, especially apparel suppliers, fared slightly better, perhaps because their wares are not big-ticket

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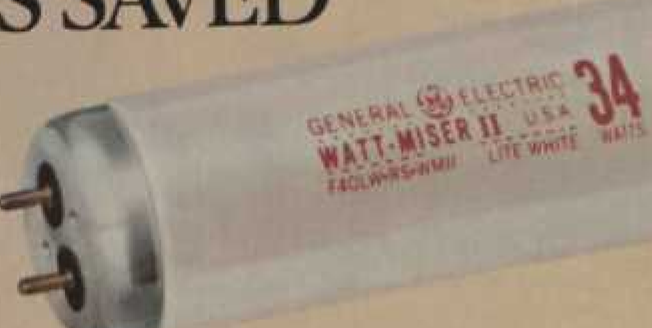

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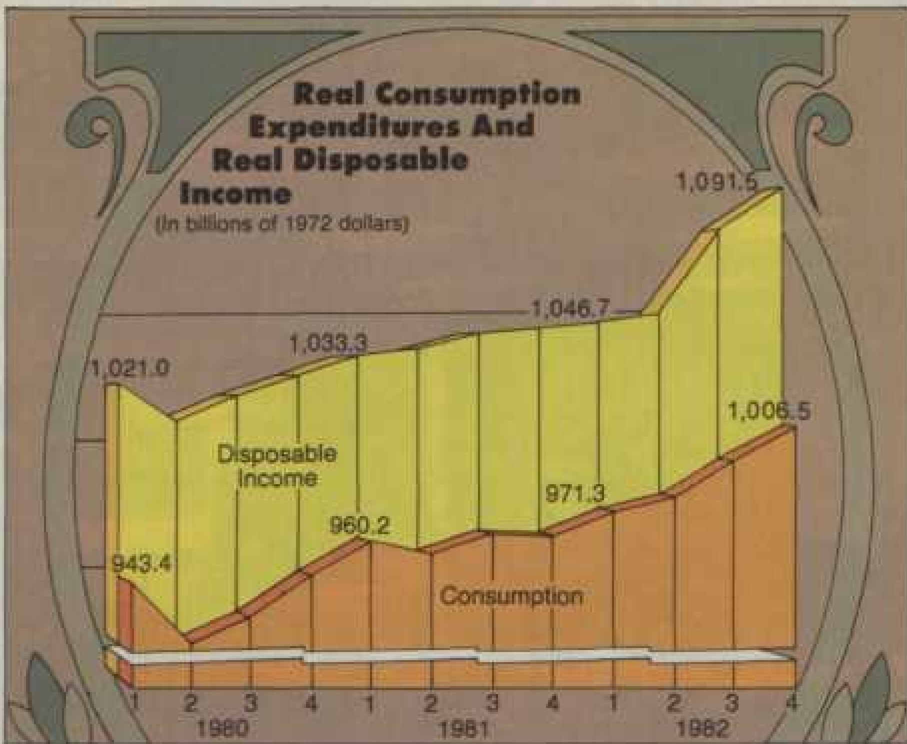
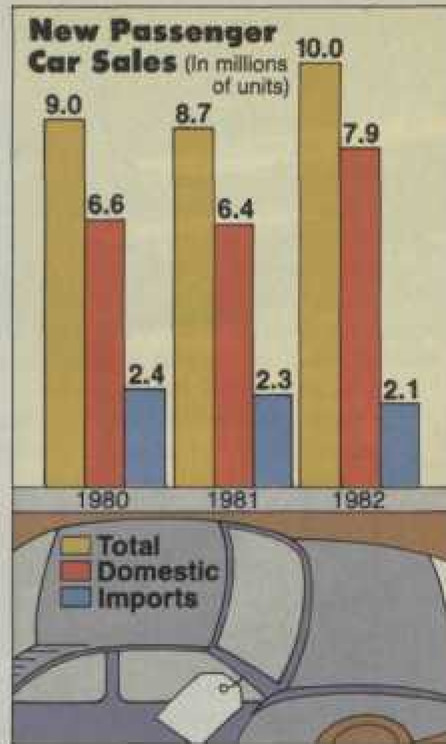




Wholesale and Retail Trade

	Levels			Annual Percent Change		
	1980	1981	1982	1980	1981	1982
Consumption (In billions of 1972 dollars)						
Durables	135.8	140.8	150.7	−7.4%	3.6%	7.1%
Furniture, etc.	58.9	61.3	61.8	−1.4	4.0	0.9
Motor vehicles and parts	53.8	55.3	64.7	−12.8	2.7	17.0
Other [1]	23.1	24.2	24.1	−8.1	4.9	−0.3
Nondurables	358.3	367.0	375.8	1.1	2.4	2.4
Clothing and shoes	78.0	83.9	87.2	1.9	7.5	3.9
Food	181.5	184.3	186.2	2.7	1.6	1.0
Fuel oil and coal	4.2	3.6	3.5	−10.4	−13.9	−2.9
Gasoline and oil	26.2	25.1	25.0	−6.6	−4.3	−0.5
Other [2]	68.4	70.1	73.9	−0.2	2.4	5.4
Implicit price deflators (1972 = 1.00)						
Durables	1.56	1.67	1.76	7.7	6.9	5.8
Furniture, etc.	1.44	1.52	1.58	5.9	5.6	3.9
Motor vehicles and parts	1.67	1.82	1.94	8.1	8.6	6.5
Other	1.62	1.70	1.78	13.4	5.2	4.5
Nondurables	1.89	2.02	2.13	11.1	7.4	5.4
Clothing and shoes	1.34	1.39	1.46	4.0	3.6	4.8
Food	1.91	2.08	2.22	7.9	8.9	6.9
Fuel oil and coal	4.71	5.73	5.94	38.0	21.5	3.8
Gasoline and oil	3.39	3.73	3.83	38.8	10.0	2.6
Other	1.70	1.85	1.96	9.1	8.6	6.2
Wholesale price index—Industrial commodities	2.75	3.04	3.26	16.2	10.7	7.1
Employment (In millions)	20.39	20.75	21.14	1.0	1.8	1.9
Final sales (In billions of 1972 dollars)	1,483.6	1,502.5	1,531.7	0.7	1.3	1.9
Disposable income (In billions of 1972 dollars)	1,018.4	1,039.4	1,067.2	0.7	2.1	2.7
*Consumer sentiment index (1966 : 1 = 100)	64.4	73.7	85.2	−2.4	14.4	15.6

[1] Ophthalmic products, orthopedic appliances, wheel goods, durable toys, sports equipment, boats, etc.
[2] Tobacco products, toilet articles, stationery, cleaning supplies, etc.
*A measure of consumer attitude toward buying.

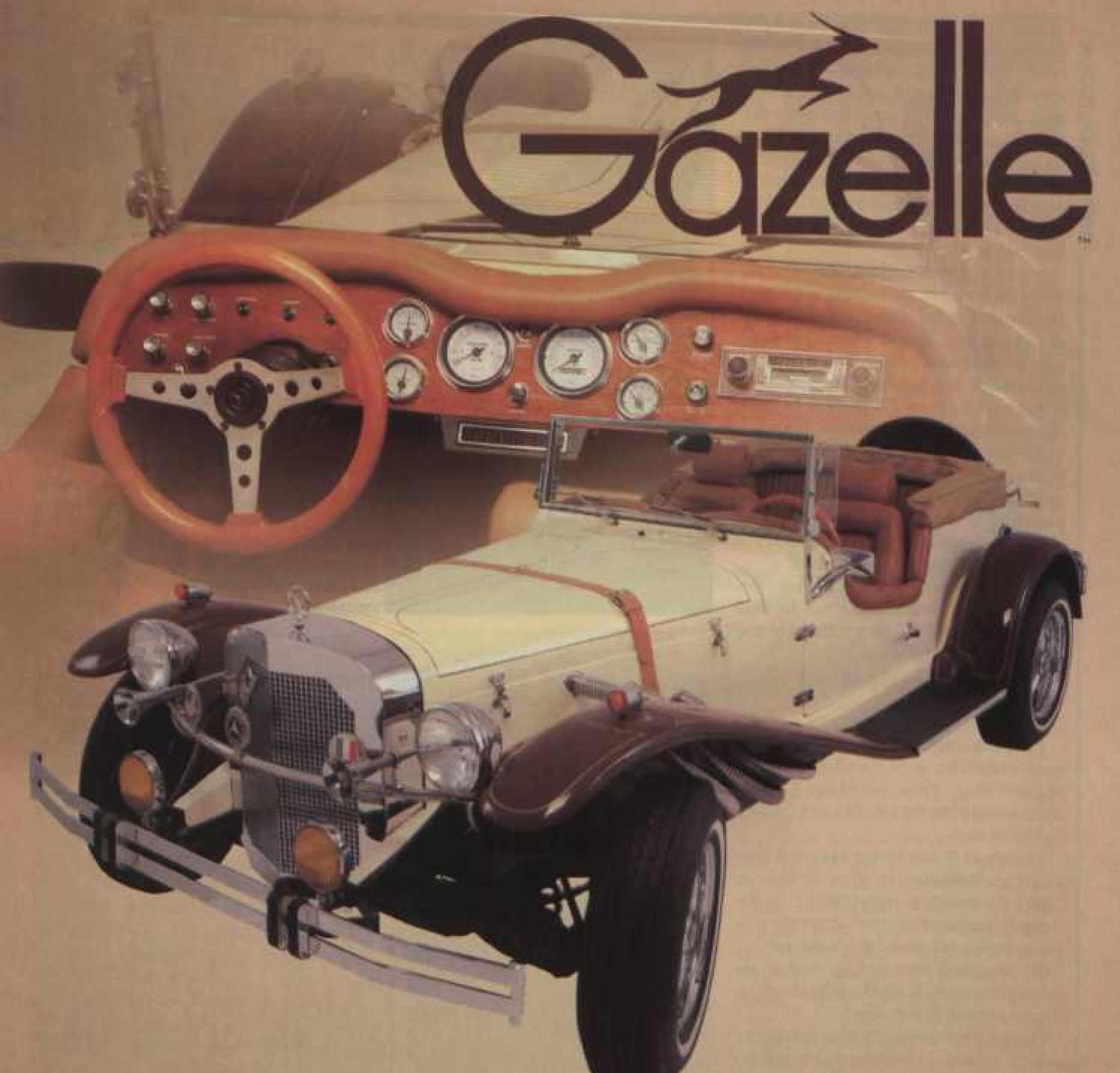
items. However, retail sales in 1980 were still hurt by persistent double-digit inflation rates, which eroded real incomes.

By 1981 wholesale performance had picked up slightly as managers sought more efficient methods of operation. Consumers, meanwhile, had ceased making major purchases and turned to clothing, recreational equipment and other nondurables. At times consumers appeared resistant to the 1981 economic slowdown. Ignoring high rates of inflation and high interest rates, they expanded debt and maintained modest levels of expenditures. The economy in 1981 was kept afloat largely by consumers.

This year the wholesale and retail sectors will receive substantial relief because of the Economic Recovery Tax Act of 1981. With firm monetary policy, an upswing in business confidence, falling inflation rates and falling interest rates, sales activity in these two sectors will pick up.

In 1982 the demand for both durables and nondurables will grow as individual income rises and inflation falls. Inflation, as measured by the implicit price deflator for consumption expenditures, is forecast to fall to 6.7 percent in 1982. Meanwhile, disposable income is expected to rise to $1,067.2 billion, a 2.7 percent increase over 1981.

That increase in purchasing power affects the outlook for sales of manufactured goods. On average, real outlays for durables—furniture and motor vehicles—are expected to rise by 7.1



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percent to $150.7 billion in 1982. In the nondurables sector, sluggish growth in spending for energy products (fuel oil, coal, gasoline) will slow the recovery. But increased outlays for clothing, shoes and food will buoy the nondurables sector. For 1982, real nondurables purchases are forecast to reach $375.8 billion, about $8.8 billion higher than the 1981 level.

In the wholesale sector, the recovery in housing and autos in 1982 will revive lumber and metal prices, but this revival will not lead to any overall acceleration in wholesale prices. The wholesale price index for industrial commodities is forecast to grow 7.1 percent in 1982, compared with 10.7 percent in 1981.

As the demand for manufactured products grows in 1982, wholesale and retail employment will rise. Total employment in these sectors is forecast to reach 21.1 million, a 390,000 increase from the 1981 level.

The economic prospects for the wholesale and retail industries in 1982 and beyond will be dominated by the stimulus of the tax cuts.

Services

Personal services (laundry, hair care, cleaning, etc.), business services (advertising, data processing, etc.), auto repair, recreation, health and legal services.

Prospects in this sector are good. Services are expected to grow briskly in 1982 as a result of improvement in the overall economy. Since expenditures for services account for almost half of total consumer spending, growth in total consumption is highly influenced by what happens in services.

One of the fastest-growing industries will be financial services, which will respond to deregulation in the industry, corporate demands for investment financing and increased consumption by individuals.

Real outlays for housing, transportation and household operation (electricity, natural gas, etc.) are expected to rise 3.0 percent to $466.6 billion in 1982. The largest increase will be for housing—$6 billion from 1981 to 1982. Double-digit inflation rates in the electricity and natural gas industries will slow consumer expenditures there. Real outlays for transportation services (user-provided, local bus and taxi, and intercity) will rise as economic output expands and shipments increase.

Output in both consumer and business services will rise in 1982 in response to growing demand. All service

PHOTO: KENNETH GARRETT—WOODFIN CAMP INC.

New capital equipment—such as computers—will improve productivity in the services industries.

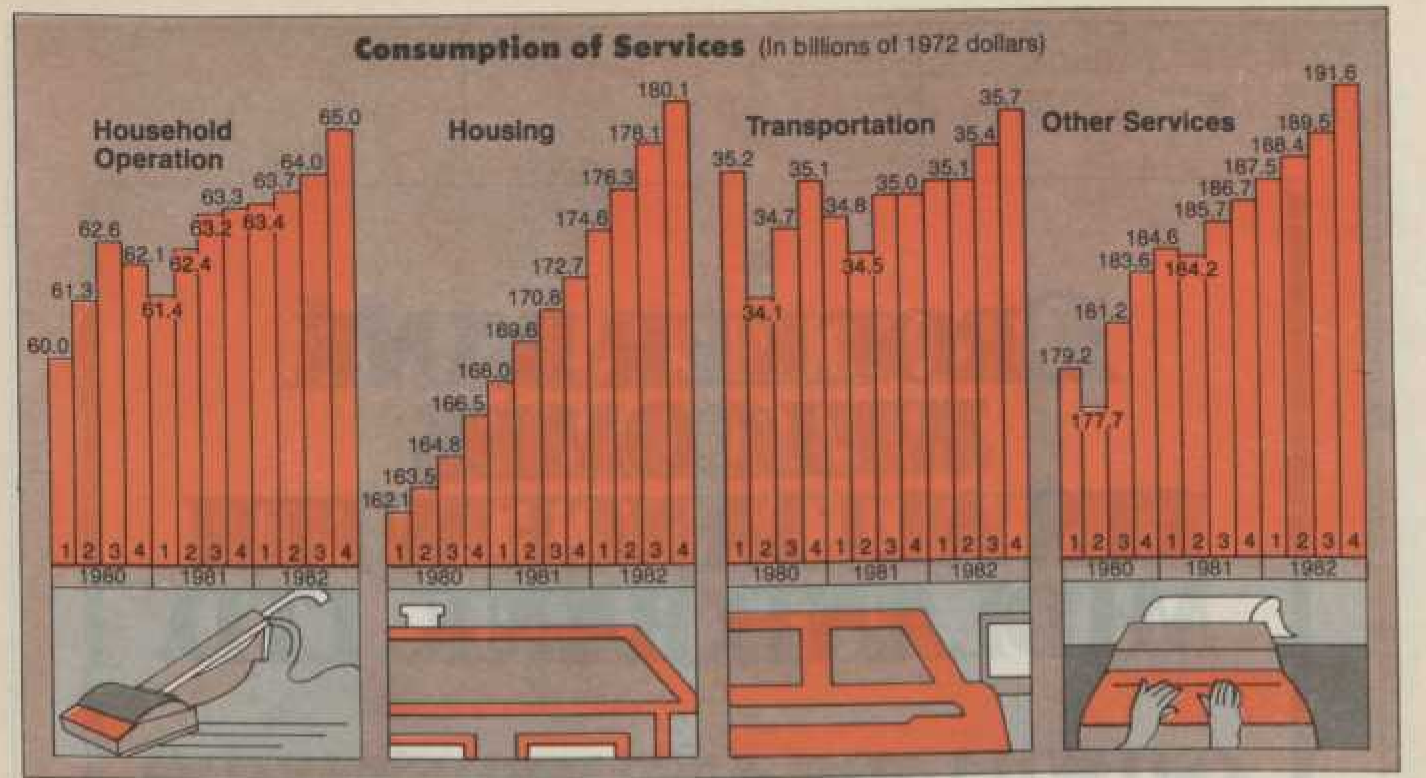
PHOTO: BRYCE FLYNN—PICTURE GROUP

Deregulation and tax incentives will make financial services one of the fastest-growing businesses.

Services

	Levels			Annual Percent Change		
	1980	1981	1982	1980	1981	1982
Output (1967=1.00)						
Business services	1.70	1.76	1.81	2.9%	3.3%	3.3%
Consumer services	1.52	1.56	1.60	1.3	2.9	2.5
Employment (In millions)	17.9	18.6	19.0	4.6	3.8	2.5
Consumption (In billions of 1972 dollars)	440.9	453.0	466.6	2.6	2.7	3.0
Household operation	61.5	62.7	64.5	3.2	1.9	3.0
Electricity	16.9	17.2	17.5	2.4	2.1	1.8
Natural gas	6.4	6.0	6.1	−3.3	−6.4	1.5
Other [1]	38.3	39.5	40.9	4.7	3.2	3.7
Housing [2]	164.2	170.2	176.2	3.1	3.6	3.6
Transportation [3]	34.8	34.7	35.2	−2.1	−0.2	1.5
Other [4]	180.4	185.4	190.5	3.0	2.8	2.8
Implicit price deflators (1972=1.00)	1.78	1.95	2.12	9.9	9.6	8.4
Household operation	1.81	2.02	2.23	9.6	11.5	10.3
Electricity	2.17	2.51	2.83	15.7	15.9	12.5
Natural gas	2.98	3.38	3.84	19.3	13.3	13.6
Other	1.46	1.60	1.73	4.1	9.6	7.8
Housing	1.66	1.80	1.94	9.1	8.8	7.8
Transportation	1.84	1.99	2.13	14.4	8.1	7.0
Other	1.87	2.06	2.24	9.8	10.0	8.7
International trade (In billions of 1972 dollars)						
Exports	68.9	70.8	71.6	7.5	2.8	1.0
Imports	35.1	38.5	41.8	8.8	9.6	8.8

[1] Includes water and sanitation, telephone and telegraph domestic service.
[2] Includes owner-occupied nonfarm dwellings (space rent), tenant-occupied nonfarm dwellings (rent), and rental value of farm dwellings.
[3] Includes user-operated transportation, purchased local transportation (transit systems and taxi), and purchased intercity transportation (railway, bus and airline).
[4] Includes personal care, medical care, personal business, recreation, private education and research, religious and welfare activities, and net foreign travel.



industries will show positive growth. On the average, output will rise 3 percent, mirroring the productivity growth expected in this sector.

Productivity growth in services contributes to productivity growth in the overall economy. Conversely, the anticipated improvement in managerial skills and advancement in technology that accompany expansion in other industries will boost productivity growth in services. Productivity in this sector will also rise because of the recent trend toward substituting capital equipment for labor—computers, for example—in service establishments.

Nonetheless, with the exception of transportation, this sector remains highly labor-intensive. Although some slowdown in employment growth is expected, services employment will still rise 2.5 percent in 1982, an increase of about 400,000 jobs from 1981. This sector is the main source of new jobs.

On the international front, the strength of the overall U.S. economy will help offset some of the weakness in export services caused by the strength of the U.S. dollar. The export sector will be helped by growing demands for financing, insurance and transportation as total U.S. exports increase.

At the same time, some rise in the importation of services can be expected as the demand for foreign products continues in 1982. □

To order additional copies of this issue, see page 76.

Is the Defense Buildup Inflationary?

From 1982 through 1986 the Reagan administration has planned an increase of $1.47 trillion in authorizations for defense, compared with the $1.25 trillion proposed by the Carter administration. Recalling defense buildups in the past, some people fear that this one might have a serious inflationary impact on the economy. These fears are unjustified, says the U.S. Chamber Forecast Center.

First, over the next five years, defense spending will increase as a share of federal outlays while transfer payments to individuals (Medicare, food stamps, federal pensions, etc.) will decline. Transfer payments increase demand without providing an incentive to increase supply. Defense spending increases demand and the incentive to increase supply. Defense spending is therefore less inflationary than the transfer payments it will in great part replace.

Second, there is still a considerable amount of excess capacity in most of the industries that will be directly affected by the defense spending acceleration. These include shipbuilding, electronics, aircraft and parts, ordnance, primary metals, communications and motor vehicles. Though worry has been expressed about the availability of specialized subcontractors and skilled labor, these problems will not arise for several years. Further, they involve changes in relative prices, which are not likely to be widespread enough to affect the general price level.

The current excess capacity in the prime contracting industries shifts the possibility of bottlenecks in those industries to the latter years of the buildup—1983-86. That leaves sufficient time to increase capacity to meet demand. There will be no jolting impact on the economy in terms of shifting the use of resources. The buildup is phased in over a longer period of time than the wartime emergency rearming of the past.

Getting the inflation rate down is a major goal of the administration, as is rebuilding the nation's military capability. The two are compatible. If the Federal Reserve can resist monetizing increases in deficits resulting in part from faster growth in any federal spending, then inflation can continue downward. The Fed will need the help of Congress in reducing the growth of nondefense expenditures to minimize any potential impact on the deficit from faster growth in total spending.

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The Art and Science Of Econometric Forecasting

PHOTO: WAYNE PARTLOW

The team of U.S. Chamber of Commerce prognosticators (from left): Paul Reardon, associate chief economist, Surveys and Forecasting; Graciela Testa Ortiz, associate director, Forecast Center; Ronald H. Clarke, director, Forecast Center; and Richard W. Rahn, vice president and chief economist.

LATE LAST NOVEMBER, Ronald H. Clarke sat down at a keyboard in his Washington office and typed a series of numbers. Four hundred and twenty nine miles to the north, a Burroughs B7700/7800 computer clicked, whirred and blinked in response.

That was the beginning of a week-long "conversation" between Clarke and the computer. At its end, the econometrician and his associates at the U.S. Chamber Forecast Center had some 20 pages of printout sheets covered with data. Those numbers, properly interpreted, foretell the state of the American economy for the next two years.

Econometric forecasting developed after World War II with the confluence of three essential prerequisites. First, economists had learned enough about the interrelationship of big "aggregates"—consumer spending, investment in plant and equipment, employment, etc.—to begin formulating and testing mathematical equations to represent those relationships. Second, more and better economic data became available from national governments. And third, the birth of the computer provided a tool that was capable of coping with the enormously complicated calculations required for economywide studies.

Eventually the formulas were combined into elaborate "models"—mathematical simulations of an entire economy. Ideally, a model should predict with reasonable accuracy the future course of economic events (on a large scale). It should also demonstrate the theoretical effect of policy changes or other developments affecting one or more of the significant variables. One example would be calculating the result of a rapid increase in the growth of the money supply.

The models are getting better, but they are still far from perfect. Much remains to be learned about the influence of key variables. And no computer can predict the occurrence of often-capricious policy changes dictated more by political than by economic considerations. If, however, the forecaster is willing to specify the policy changes he expects, a good model can give the best obtainable approximation of the effects.

Into the model go the policy expectations plus a mass of data showing the present state of the economy and the historical relationships among its components.

From this material, the model first projects what will be spent on final goods, such as automobiles and furniture. Working back from this projection, the model then calculates what changes in production will be necessary to accommodate the changes in spending. Changes in production, in turn, imply new spending on plant and equipment and new levels of employment. And all of these elements affect profit.

Each industry is, of course, both customer and supplier to other industries. The degree to which changes in one industry affect other industries is computed by the model from what is called an input-output table.

THE SUM OF ALL this industrial activity greatly influences the outlook for the total economy, which in turn influences sector-by-sector projections. If the process of projection seems somewhat circular, it is because the economic system is circular.

In short, current econometric models base their projections on the premise that growth in demand determines growth in output. This fundamental premise is questioned by supply-siders, who believe that models so constructed cannot adequately account for changes in the incentives to increase supply. This flaw in present models leads them to produce excessively pessimistic projections of the effects of Reagan administration economic policies.

To compensate for that demand-side bias, the Chamber economists instructed the model to assume that the tax cuts and a falling rate of inflation would lead to a larger increase in saving and a higher rate of investment than it would have done unaided.

Further, the Chamber's forecast assumes continuing reductions in the growth of federal nondefense spending, consistent monetary policy by the Federal Reserve Board (an average growth of 5 percent per year for M1-B from 1981 through 1984), and no changes in the Economic Recovery Tax Act of 1981.

The number crunching was done in a short-term model of the U.S. economy maintained by Data Resources, Inc., an econometric firm based in Lexington, Mass. □

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Solidarity Day in Washington last September was an organized-labor effort to show the Reagan administration that the trade union movement still has clout.

STEVE CAGAN—PICTURE GROUP

Unhappy

The unions fear bargaining will be no bargain for them in 1982.

FOR ORGANIZED LABOR there were few victories to toast in 1981. The glasses may be even emptier in 1982. Long faces worn these days by labor leaders have pundits theorizing that the trade union movement has lost its clout, has gone into a slump. Such charges don't get by labor leaders:

"The fact is, the entire economy—the entire country—is in very difficult straits," says Sol C. Chaikin, president of the International Ladies' Garment Workers' Union and a vice president of the AFL-CIO.

"We are moving into a fairly deep recession, and if working people are expected by large corporations to mitigate their wage needs and make some sacrifices and accommodations, it is because the industries themselves are in trouble. And if working people get into difficulty, it is because the communities in which they live are in trouble.

"You can't ascribe this to labor's losing its clout."

Nevertheless, organized labor in 1982 will take its lumps, and it knows it. Contracts will be negotiated this year affecting more than 2 million workers in the trucking, electrical, auto, garment and construction industries and another half million in state, county and local governments.

"Negotiations this year will be the most difficult in our history," admits Douglas A. Fraser, United Auto Workers president. He sees "enormous complications" from Japanese competition and slumping U.S. auto sales.

"You can't run away from reality," he says, conceding the Japanese are producing an auto for an average of $1,500 less than the Americans. "We've got catching up to do."

But his views of catching up, when translated into dollars and benefits for workers, may not coincide with those of the auto makers.

Ford Motor Company, for example, is threatening to move parts production facilities out of UAW-organized plants to outside suppliers that can produce less costly components—unless the union stifles its wage and benefit demands. Fraser says his workers won't bow to such "foolhardy pressure." Ford may not be bluffing, however; when it asked workers in its Sheffield, Ala., plant several weeks ago to take a 50 percent cut in wages and benefits or lose their jobs, and the UAW refused, Ford announced it was closing the plant.

Over at American Motors, UAW workers were asked in November to give up pay and benefit increases equal to 10 percent of their income. Fraser made it clear the union "has no interest in discussing rollbacks in direct pay." Bargaining is scheduled.

Observing that U.S. auto workers currently average $11.57 an hour compared with their Japanese counterparts' $6.15, General Motors has put the UAW on notice that its members are overpaid in relation to the competition. To which Fraser responds, "It would be self-defeating for our workers to attempt to compete with Japan by reducing wages." He contends that Japanese auto makers could merely move their operations to areas with still lower wages.

Such standoffs at this stage, nine months before the auto contracts expire, may conceal the compromising attitudes that have lain below the surface ever since the union coughed up $1 billion in contracted wages and benefits to keep Chrysler Corporation in business.

Although the UAW has a whopping strike fund of $369 million, its rank-and-file talk about giving up paid holidays and breaks during shifts rather than risk their jobs. And more than anything else, the UAW wants its workers to retain their jobs. Since 1979 the union has seen its membership drop from 1.5 million to 1.2 million because of industry layoffs.

Meanwhile, U.S. auto makers have been losing money—$4 billion in 1980. And they know the road ahead will be hazardous. Prof. Edward L. Cushman, a former head of labor relations at American Motors and now a labor affairs specialist at Wayne State University, points out that the automobile industry has become a worldwide industry and predicts that the "number of manufacturers will be reduced to eight to 10 within the decade." He adds, "The decisions made in the upcoming auto labor negotiations may well determine which companies and which jobs survive."

SURVIVAL is a word labor keeps encountering these days. And the threat comes as much from Washington as from Detroit. UAW's Fraser interprets President Reagan's dismissal of 12,000 air traffic controllers as "a fair warning to all unions that if they get into a struggle and look to the federal government for some kind of comfort, they aren't going to get it."

That comfort may not come from state, county or local governments, either. The test could come this year when the American Federation of State, County and Municipal Employees begins negotiating major contracts covering

New Year for Labor

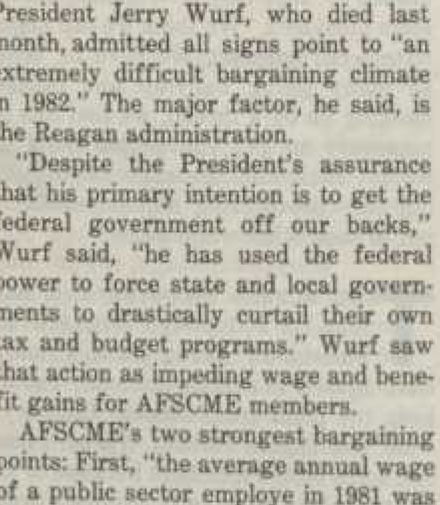
By Del Marth

some 500,000 government workers.

Public employe unionism is one of the few labor sectors that has recently grown in membership. Yet AFSCME President Jerry Wurf, who died last month, admitted all signs point to "an extremely difficult bargaining climate in 1982." The major factor, he said, is the Reagan administration.

"Despite the President's assurance that his primary intention is to get the federal government off our backs," Wurf said, "he has used the federal power to force state and local governments to drastically curtail their own tax and budget programs." Wurf saw that action as impeding wage and benefit gains for AFSCME members.

AFSCME's two strongest bargaining points: First, "the average annual wage of a public sector employe in 1981 was $14,500 compared with $17,000 for workers in manufacturing industries; second, wage and benefit increases in the public sector last year were roughly 8 percent, while the private sector averaged 11.5 percent."



AFL-CIO President Lane Kirkland: "We have fought against greater odds."

GEORGE TAMES

In addition, AFSCME officials say, "give-backs are already a major issue in the private sector and could become an issue in public sector negotiations, even though public employes have little to give back."

If a rash of strikes appears this year, it is likely that most will come from AFSCME. Over the years, as this union has added more locals and members, the number of its strikes has increased. Although only eight states allow strikes by public employes (and even they have some restrictions), 535 walkouts were called last year by state and local government employes. The average in the 1970s was 423 annually.

Experts point out strikes don't normally happen without strong unions. Conversely, the decreasing number of strikes generally may be proof that overall, labor is indeed losing its clout.

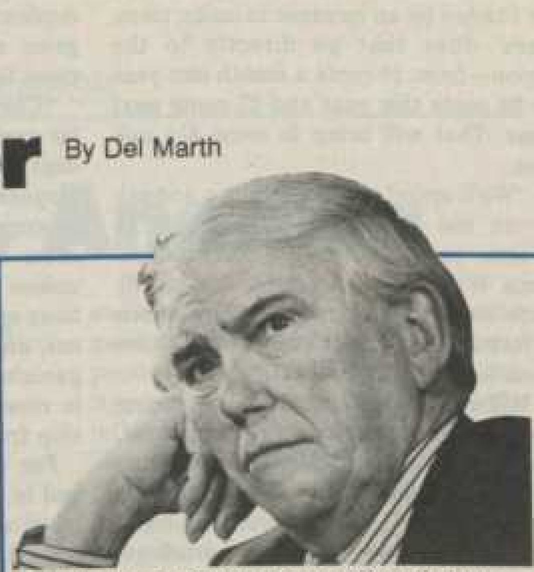
Working time lost to strikes in the U.S. has been decreasing in recent years—48 million man-days in 1974, only 33 million in 1980. (The 1981 figure, not yet in, is expected to be even lower.) And in 1980, fewer workers went on strike than in any year since 1963.

Efforts to organize workers outside the public sector have been failing, according to the latest figures from the National Labor Relations Board. They show that unions won 45 percent of all representation elections in 1979, down from 61 percent in 1966. (The record: 94 percent in 1937.)

Today, union workers total 21 percent of the U.S. work force, as against a high of 25.5 percent in 1953. About two thirds of organized labor is in the AFL-CIO, with its 15 million members and 102 union affiliates.

AFL-CIO President Lane Kirkland, cognizant of labor's soft image these days, says, "There has never been a time when our gains were fully safe or secure. . . . We have fought against greater odds and we certainly are not about to abandon the struggle now."

That struggle includes reuniting the rank-and-file politically. Although the AFL-CIO in 1980 endorsed Jimmy Carter, many union workers (some estimate more than 40 percent) voted for Ronald Reagan. AFSCME President Wurf last August explained it away: "American workers have not become more conservative or Republican; they simply lack understanding about what is going on with the economy."



UAW President Douglas Fraser: "Negotiations this year will be the most difficult in our history."

PAUL CONKLIN

A speculative assessment, to be sure. But the political cleavage within union ranks, like the political cleavage on Capitol Hill, does not bode well for pro-union legislation this year. In fact, neither union nor congressional leaders anticipate any significant labor legislation on the Hill in the months ahead.

LABOR LEADERS are determined to fend off changes in the Davis-Bacon Act (which requires the so-called prevailing area wage to be paid on projects involving federal money) and are assaulting the Walsh-Healey Act (which allows a 10-hour work day on federally contracted jobs without overtime). And by resolutions at the annual AFL-CIO convention in November, delegates voted for a series of "antirecession" programs, among them reviving emergency local public works programs, restoring public service jobs for the unemployed and placing temporary restrictions on imports "harming the nation's industrial base."

Delegates also called for restoration of most welfare, education and public works cuts and opposed tampering with any Social Security programs.

Kirkland told convention delegates that on November 2, Election Day, organized labor "must march to the polls in unprecedented numbers to elect a Congress that will reverse the disastrous policies of the Reagan administration."

Other aggressive tactics are in the works for 1982. The AFL-CIO is establishing a labor institute for public af-

fairs to enhance labor's image. It will be funded by an increase in union members' dues that go directly to the union—from 19 cents a month last year to 24 cents this year and 27 cents next year. That will bring in some $14 million.

"We'll spend about $5 million annually on the institute," says Glenn E. Watts, president of the Communications Workers of America, "to coordinate organized labor's public relations efforts." In the past such efforts have been left to individual affiliates.

Millions of dollars more are being funneled into organizing campaigns, particularly among clerical and technical workers in the South. Last fall 40 unions in the Houston area combined efforts to sign up unorganized workers. The ongoing Houston Project hopes to duplicate a similar drive in the Los Angeles area that netted the AFL-CIO more than 400,000 new members.

"Clerical work is becoming blue-collar work," says John J. Sweeney, president of the fast-growing Service Employees International Union. "Word processors, for example, are really machine operators. You're going to see unions undertaking aggressive, ambitious organizing campaigns in these areas, areas where there has been no organizing in the past." Sweeney's union in recent years increased its membership from 200,000 to 700,000.

For the immediate future, however, and in unions' traditional jurisdictions, labor may have to approach the negotiating table with hat in hand. So may management. For until the economic climate improves, it, more than management or labor, is setting the rules.

Cooperation in the face of a fragile economy is nowhere more evident than in the trucking industry. The Teamsters union, with some 100,000 of its members out of work, is already sitting down with the industry to reopen its National Master Freight Agreement even though the current contract does not expire until March 31.

"We have to do something to help the industry," says Roy L. Williams, Teamsters president. "We think we can negotiate a fair contract. We have to. With so many going belly-up and others hanging on by a thread, we feel this is necessary to get our people back to work." Teamsters are expected to hold out for cost-of-living adjustments but not to seek other wage gains.

THE RUBBER INDUSTRY also has lost its elasticity. Workers at Firestone's Akron plant already have agreed to a $1-an-hour pay cut to keep the plant from closing. Industrywide, the United Rubber Workers has lost some 50,000 members because of at least 18 plant closings in the past three years.

Milan Stone, the URW's new and conciliatory president, looks forward to negotiating "in an atmosphere of trust." In lieu of wage increases, his union may settle for seats on corporate boards. But the URW is adamant that cost-of-living adjustments not be part of any give-back package.

Whatever the industry, a "new sensitivity to company performance and a new perception of the need to be competitive" will permeate negotiations in 1982, says Audrey Freedman, chief economist of the Conference Board.

In a forecast released by the research organization last month, 10 labor experts from industry, unions and education predicted:

"Wage demands will be moderate ... labor will take strong positions on measures to provide job security for its members ... the coming year will be marked by wage freezes and reduced labor forces in many industries."

That does not portend a vintage year for organized labor. And such leaders as Sweeney of the Service Employees International Union are priming the rank-and-file for a passive year by telling workers: "A union should seek the best possible contract for its members ... but you have to keep the employer healthy or you negotiate yourself out of a job." □

Major Contract Negotiations in 1982

Industry	Union	Estimated Number Of Workers Involved
JANUARY		
Petroleum refining industries	Oil, Chemical and Atomic Workers International	50,000
MARCH		
Trucking industries	International Brotherhood of Teamsters	300,000
State of New York	American Federation of State, County and Municipal Employees	120,000
APRIL		
Rubber industries	United Rubber Workers	
Goodyear		22,300
Firestone		15,300
Goodrich		9,400
Uniroyal		8,300
United Parcel Service	Teamsters	73,000
MAY		
Garment industries	International Ladies' Garment Workers	63,000
JUNE		
General Electric	International Union of Electrical, Radio and Machine Workers, and United Electrical, Radio and Machine Workers of America	107,000
City of Philadelphia	American Federation of State, County and Municipal Employees	18,000
City of New York	American Federation of State, County and Municipal Employees	110,000
JULY		
Westinghouse	International Union of Electrical, Radio and Machine Workers, and United Electrical, Radio and Machine Workers of America	40,000
California processors	Teamsters	60,000
AUGUST		
Garment industries	Clothing and Textile Workers	60,000
Meatpackers	United Food and Commercial Workers	50,000
SEPTEMBER		
Auto industries	United Auto Workers	550,000
Farm machinery	United Auto Workers	106,000

Another Year, Another Budget Battle

By Michael Thoryn

NINETEEN EIGHTY-TWO is shaping up as a year of more of the same on Capitol Hill. Sparring on budgets, appropriations and taxes will again top the legislative agenda.

Some major issues left undecided in the first session of the 97th Congress, notably Clean Air Act revisions and omnibus regulatory reform, are also due for early consideration.

But "budget issues will dominate the second session," says Sen. Pete V. Domenici (R-N.M.), chairman of the Budget Committee. "I don't know how it could be otherwise." The senator says the fiscal 1983 and 1984 budget deficits will be huge unless Congress—with some urging from the President—overcomes its "universal political desire to put off budget decisions in an election year."

The toughest decision of all: whether and how to curtail the growth of entitlement programs, such as Social Security pensions and medical aid, whose outlays are still growing faster than the inflation rate. The formulas by which benefits are calculated will have to be revised downward, Domenici says. He adds: "Something must be done to bring some order to the uncontrollables and take the chaos out of the budget."

Hilton Davis, vice president for legislative and political affairs at the Chamber of Commerce of the United States, agrees that budgets, spending cuts and taxes will be the major issues of 1982. "I wouldn't be surprised if the budget battles are greater than in the first session," Davis says. "We never thought just one round of budget cutting would be enough to bring budget growth under control."

The U.S. Chamber and other business groups would like Congress to maintain President Reagan's economic recovery program. Some even want to move up the 10 percent reduction in individual tax rates from July to January. Such an advancing of the tax cut is rated unlikely by most observers. Also considered unlikely in this election year are a delay in the tax cuts and significant tax increases. Both tacks have been suggested as ways to narrow anticipated budget deficits.

At its recent meeting, the Chamber's board of directors emphasized that suggestions by some groups to dismantle the Reagan program "ignore the fact that decades of economic mismanagement in Washington cannot be undone overnight." The board added that "the transition from overdependence on the federal government to a revitalized private-enterprise economy will not occur quickly or easily. Yet the course the President has charted is sound and deserves the unwavering support of all Americans and their elected representatives."

Donald M. Kendall, chairman of the group as well as chairman of PepsiCo, points out that Reagan's proposed bud-

Budget decisions can't be put off, says Senate Budget Committee Chairman Pete Domenici (R-N.M.). At left: his House counterpart, Rep. James R. Jones (D-Okla.).

get cuts would "only reduce the increases planned by the previous administration." The 1982 budget will still be the largest in U.S. history, he says—its rate of increase over last year's budget outstripping inflation.

He adds: "Relatively minor reductions in the growth of federal spending, coupled with major tax incentives for every worker and business in America, have already begun to produce positive results in the rates of savings, interest and inflation."

Another tax incentive, this one geared to economically disadvantaged small businesses, will get a full hearing this year. During the 1980 campaign, President Reagan pledged to create urban enterprise zones, whose lower taxes and relaxed regulations, he said, would stimulate investment and create jobs in depressed areas.

Legislation to carry this out is scheduled for early committee action. The chief sponsors, Reps. Jack F. Kemp (R-N.Y.) and Robert Garcia (D-N.Y.) for a House bill, H.R. 3824, and Sens. John H. Chafee (R-R.I.) and Rudy Boschwitz (R-Minn.) for a Senate bill, S. 1310, say their bills would cost little in lost revenue and in fact would stimulate formation of taxpaying small businesses. The tax incentive approach, benefiting all firms that choose to operate in designated zones, is a departure from the traditional government practice for small business aid—slow, firm-by-firm selection of companies thought to deserve grants or loans.

In addition to money bills, there are many other legislative issues of concern to business in 1982. A sampling from the top of the list follows.

Regulatory Reform

The Omnibus Regulatory Reform Act, H.R. 746 and S. 1080, would formally establish the Office of Management and Budget as a checkpoint for federal regulation, empowering OMB to regulate the regulators. OMB would have authority to set standards for agencies to use when weighing costs and benefits of new rules.

Business hopes Congress will make this review authority apply to the so-called independent regulatory agencies, such as the Federal Trade Commission and the Securities and Exchange Commission, as well as to those in the executive branch.

Labor

Davis-Bacon reform. An attempt at piecemeal repeal of the act was rebuffed in November when the Senate retained Davis-Bacon provisions in the annual military construction bill. Davis-Bacon, adopted in 1931, requires contractors to pay "prevailing wages" on federally funded construction projects. The wages usually turn out to be the highest union wage in the area.

Sen. Don Nickles (R-Okla.) has proposed legislation that would prevent using wage rates from a metropolitan area to determine the prevailing wage in a rural area and would raise the threshold for Davis-Bacon use from contracts valued at $2,000 to $100,000.

Raising the threshold would allow local small business contractors to bid on federal projects and would eliminate some burdensome paper work requirements.

Longshoremen's and Harbor Workers' Compensation Act. This most expensive of all job-injury protection laws applies to maritime industries nationwide and private employment in the District of Columbia. A reform measure sponsored by Sens. Nickles and Sam Nunn (D-Ga.), with 10 cosponsors, would set a maximum for death benefits and limit weekly payments to 80 percent of preinjury take-home pay.

Employment of illegal aliens. Public sentiment in a recession leans toward stricter control of the number of foreign workers entering the country. The administration has proposed imposing civil fines on employers who have a pattern of hiring undocumented workers. Says Robert T. Thompson, chairman of the U.S. Chamber's Labor

PHOTO: DENNIS BRACK—BLACK STAR

Congress will listen quietly to President Reagan's economic message, as it did last year, before getting down to serious—and probably loud—disagreements on the fiscal 1983 budget.

Relations Committee, "There is no rational justification for such a massive transferring of law enforcement duties from the federal government to private citizens. The proposal would require 106 million American workers to prove their citizenship and could place an unworkable burden on employers to confirm the citizenship status of these workers."

Energy and Environment

Clean Air Act revisions. It has been slow going for revisions to this complex 1970 environmental law.

Sen. Don Nickles is pushing for reform of the 51-year-old Davis-Bacon Act.

Enterprise zones would benefit depressed urban areas, says Rep. Jack Kemp.

Among strands that must be woven together in coming months are changes in automobile emissions standards and clean air preservation rules. "The 2,500 pages of this law are so wrought with confusion, contradiction and complexity," says Richard L. Lesher, president of the Chamber, "that Environmental Protection Agency officials often do not agree on what they are supposed to require of the private sector." Business wants a clean air act, but the law must work more efficiently to encourage economic progress, Lesher says.

Strategic minerals policy. The U.S. produces minimal amounts of cobalt, chromium, tantalum, platinum and several other minerals that are crucial to the defense and electronics industries. South Africa, Zimbabwe and the U.S.S.R. are major suppliers. This adds up to a serious problem that threatens America's security and economy.

Rep. James D. Santini (D-Nev.) is pushing the National Minerals Security Act, H.R. 3364, as an answer. The bill would create a national minerals council to oversee policy formation and extend the deadline for minerals exploration on federal lands due to become off-limits to mining.

Natural gas policy. Energy Secretary James Edwards says the administration will ask Congress to accelerate decontrol of "new" natural gas—gas found after 1977—and extend decontrol to "old" gas, with all controls ending in January, 1986. Under present law, controls on "new" gas would end in January, 1985. Business wants all controls ended then but doesn't want to pay the likely congressional surcharge: a "windfall profits" tax.

Social Security Reform

In fiscal 1980, $177 billion was spent on Social Security and the two public health insurance programs, Medicare and Medicaid. Though numerous bills are pending—such as proposals to cut Social Security payroll taxes and to pay benefits out of general revenues—passage of a major bill is unlikely until Congress firms up its budget priorities. Changes in Social Security payments proved so knotty an issue that a blue-ribbon commission was set up to review the entire matter. Since the commission will report no earlier than April, this highly politicized issue could be deferred until 1983.

Small Business

Prompt Payments Act. The General Accounting Office says 40 percent of the federal government's bills are paid late and small business does most of the waiting. H.R. 4709, which has broad support, would require the government to pay its bills within 30 days. Agencies failing to do so would be charged interest.

Regulatory flexibility. The Regulatory Flexibility Act, which took effect a year ago, requires the federal government to tailor regulations to the ability of small firms to comply. Many agencies are actively revising or even dropping rules. Rep. Andy Ireland (D-Fla.), chairman of a House small business subcommittee, plans hearings at which he will grill two holdouts: the Internal Revenue Service and the Department of Defense.

Government competition. Sen. S.I. Hayakawa (R-Calif.) and Rep. David Dreier (R-Calif.) have introduced a joint resolution that would direct the federal government to rely on the private sector for goods and services whenever possible.

International Trade

Foreign Corrupt Practices Act reform. Business groups maintain that unintended vagueness in the 1977 act discourages U.S. companies from conducting business abroad and contributes to the nation's trade deficit. In passing the reform act, S. 708, and changing the name to the Business Accounting and Foreign Trade Simplification Act, the Senate said a company would be liable only if it authorized bribery "expressly or by course of conduct." A parallel bill in the House is moving slowly.

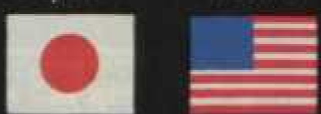
Export Trading Company Act. Revisions of antitrust and banking law are needed to encourage the establishment of export trading companies. Such companies would supply from a single source all the expertise small and medium-size firms need to export successfully. Business groups say such assistance would help entice small businesses, particularly service-oriented businesses, into unfamiliar international markets. The act has passed the Senate, but legislation is stalled in the House. □

Meeting Japan's Challenge

Fourth in a Series

SOME OF THE SMARTEST BUSINESS EXECUTIVES IN AMERICA MIGHT FAIL THIS SIMPLE TEST.

Japan *USA*



☐ ☐ 1. *Which country has the world's most productive work force?*

☐ ☐ 2. *Which country spends the most for research and development?*

☐ ☐ 3. *Which country exported more goods last year than any other country in the world?*

"INVISIBLES"
Loom Large on the Export Scene

By Bob Gatty

AS AMERICA STRUGGLES with its economic difficulties, one of our government's major objectives is to see more business and jobs generated at home through the sale of increased quantities of U.S. products abroad.

And there's growing realization that services are among our country's most valuable—and salable—products.

The ability to design and build a railroad is a product worth millions to the developing country that wants to move iron ore from its interior to its coast for export. The expertise to construct port facilities is necessary to move the ore to its market. American companies are providing those products and more as they compete for their share of the international services pie. In doing so, they provide new markets for American goods.

PHOTO: CPC

In Indonesia, a U.S. firm's satellite station broadens communications.

Services are the so-called invisibles—engineering and construction supervision, accounting, shipping, insurance, banking, tourist services, movies, advertising, commercial aviation, communications, franchising and many others.

Exports of such invisibles generated $128.2 billion in business for U.S. firms during 1980—up from $92.5 billion in 1977.

The Commerce Department's Bureau of Economic Analysis says the services sector added a net $35 billion to the 1980 balance of payments, while trade in goods came to nearly $30 billion on the negative side of the ledger. Services were responsible for the first overall surplus in the U.S. balance of payments since 1976.

In the 1970s earnings derived from the export of services expanded annually at a 19 percent average rate—twice

PHOTO: RICHARD L. STACK—BLACK STAR

In Pakistan, the world's largest embankment dam—valuable for irrigation and power—was planned by American engineers.

the pace of the previous decade.

The federal government, recognizing the importance of services exports, is working to overcome some of the difficulties, both in the U.S. and abroad, that have limited their growth.

Services are "the frontier for the expansion of export sales," says U.S. Trade Representative William E. Brock. "Aggressive cultivation of foreign markets by U.S. service industries is as critical to our economic recovery as increased export of goods."

Brock's office is working with the Commerce and State departments to help U.S. service firms achieve their export potential.

"One of the major initiatives of this administration has been to bring the services question to center stage in the international trading community," Commerce Secretary Malcolm Baldrige told the International Engineering and Construction Industries Council in Washington recently. "Our objective is to develop internationally agreed-upon rules . . . for trade in services."

This activity on the government's part is good news to business. The services sector has been ignored in domestic and international policy, some business people argue. They say policymakers must recognize that service industries are the fastest-growing sector in our economy. The sector employs seven of every 10 American workers and represents two thirds of our gross national product.

The Trade Act of 1974 gave the President authority to negotiate reductions to trade barriers in both goods and services—the first time services had received such recognition. How this authority should be used was discussed at government-industry meetings organized by the Chamber of Commerce of the United States in 1974, 1975 and 1976.

Subsequently, this country brought up the subject of service trade impediments in late stages of the Tokyo Round of Multilateral Trade Negotiations, and both the Commerce Department and the U.S. Trade Representative's office set up operations to deal with service firms' international problems.

An International Service and Investment Subcommittee is now in operation at the Chamber. Vice Chairman Ronald K. Shelp, vice president and director of American International Underwriters Corporation, pointed out during congressional hearings last October that the U.S. share of world invisibles trade receipts fell from 25 to 20 percent between 1969 and 1976. One reason, he said, was other governments' unfair aid to their service firms.

This aid, Shelp said, has two forms—protectionism in a country's local market, and subsidies and other practices that support its service firms abroad.

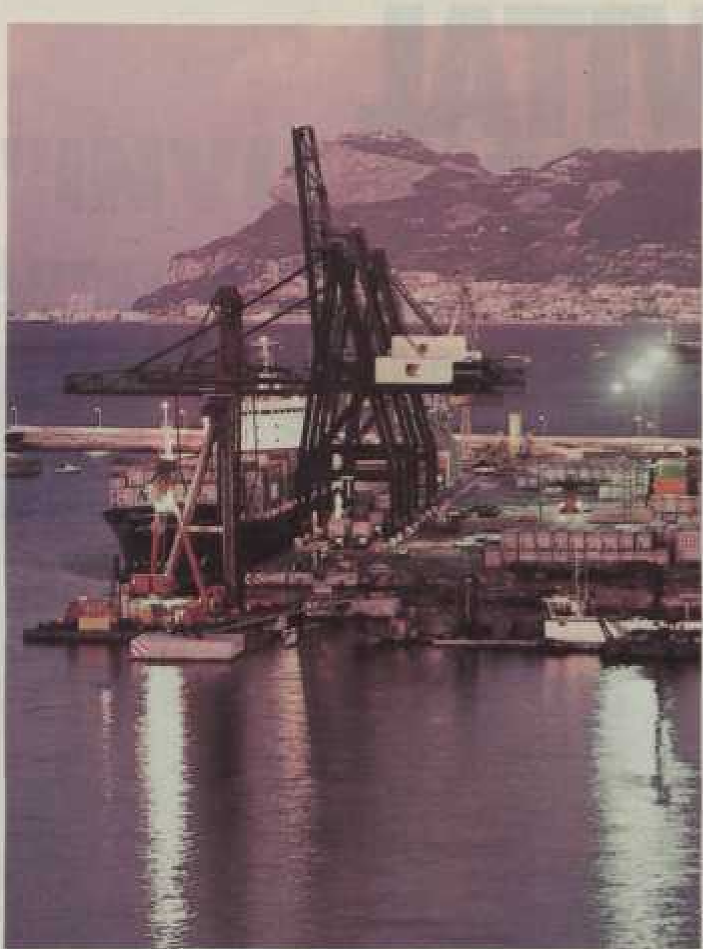


PHOTO: SEA-LAND

A U.S. container ship is docked in Algeciras, Spain, near Gibraltar. Containerization began in the U.S.

PHOTO: OPIC

American advertising agencies are rushing to get in on opportunities for their skills in developing countries.

PHOTO: QUALITY INNS

Quality Inns has linked Europe's Crest hotels, including this one in England, to its electronic reservations system.

Shelp was testifying in support of legislation to give the Commerce Department responsibility for developing, implementing and coordinating policies to improve U.S. service industries' competitive position abroad.

MUCH OF THAT WORK is already being done, says Assistant Secretary of Commerce Raymond J. Waldmann. An Office of International Services has been established at Commerce, combining two previous divisions into one, and an "aggressive, goal-oriented program to reduce barriers and disincentives" that limit the competitiveness of U.S. service firms abroad is under way, he says.

Waldmann says a major responsibility of the new office is to represent service firms when they encounter problems in dealing with foreign governments. The legislation, he says, would provide specific authority where needed and generally enhance the office's work.

Shelp points out that some countries prohibit foreign service enterprises from setting up shop within their borders. Issuance of foreign exchange can be denied. Unreasonable requirements may be set on capital structure, ownership and financial management. Foreign airlines are often prevented from using domestic reservations systems or warehousing facilities. Some nations limit the number of times a foreign film may be shown. Others restrict use of advertising copy produced in the U.S.

"Virtually every nation impedes the international movement of services through some manner of regulation," says Brock, citing such impediments as customs restrictions on equipment used by U.S. construction firms and regulations barring shipping lines from insuring with U.S. firms.

Brock points out that the sale of U.S. services not only contributes to our export revenues but also generates foreign demand for American goods.

For example, a U.S. engineering firm might obtain a contract to do a feasibility study for construction of a dam. That might lead to a contract to do the planning and engineering design—and to use of U.S. products.

That's exactly what happened when the consulting engineering firm of Tippets-Abbett-McCarthy-Stratton planned and designed the world's largest embankment dam, the Tarbela, on the Indus River in Pakistan.

"No question, there's a spinoff to American business from having an American consulting engineer get involved in feasibility reports and design," says Wilson V. Binger, chairman of TAMS. "It's not because of nationalism but because you tend to go with goods you know will do the job."

As Gordon J. Cloney II, director of service industry affairs for the International Division of the U.S. Chamber, puts it: "You don't export turbines until somebody designs the dam."

Brock points out that since the end of World War II, seven rounds of global negotiations have eased barriers to merchandise trade—but that services have not been covered. He says service firms' problems must be addressed at the General Agreement on Tariffs and Trade negotiations scheduled for next year.

PHOTO: OPIC

The First National Bank of Boston is financing many projects in Brazil.

Subsidies to foreign competitors cause major difficulties for many U.S. firms seeking to operate abroad, especially given the current high interest rates.

Countries out to obtain foreign construction projects for their firms often lend funds for the projects at rates much lower than the 12 percent that U.S. firms pay the Export-Import Bank. For example, says Raymond J. Hodge, a TAMS partner, Japan lends at 7¾ percent. "How can we compete against that?" he asks. Hodge is chairman of the International Engineering and Construction Industries Council.

Service firms face roadblocks from our own government, too.

The Foreign Corrupt Practices Act imposes U.S. standards of morality on companies doing business in nations that have no such standards. It also requires difficult paper work.

Baldrige notes that a recent survey showed most companies doing business abroad estimate the law adds 30 percent to their accounting and auditing costs. Small and medium-sized firms "can't afford that kind of overhead," the Secretary says.

Speaking to a Washington conference, Baldrige gave this example of the law's excesses:

The director of an American firm's operations in another country paid a customs official $20 to process release forms for spare parts for a broken machine. The foreign official had suggested that the alternative would be to wait several days for "further formalities." The director was reimbursed by his managing director back home. Because of uncertainty over what constitutes a "facilitating payment" under the law, the $20 did not pass an audit. The managing director's career is in jeopardy, and the company has spent $30,000 investigating why a $20 payment was made.

The Reagan administration, says Baldrige, wants to clear up the law's definitions and make its penalties fair. The objective, he says, is to stop preventing "an honest businessman from selling overseas because of fear of inadvertently breaking the law."

Also needed, Baldrige says, is revision of our banking and antitrust laws to allow export trading companies to be established. This would give antitrust immunity to service firms and other businesses so they could join in consortia to compete with foreign groups, which are often government supported.

THE LEGISLATION, approved by the Senate, is pending in the House. Its enactment "will not be a quick fix for our export performance," observes Baldrige. "But over three years it could result in a 5 percent increase in exports."

What is the status abroad of the key service industries?

The following look is based on interviews with business executives and trade association officials, government data, and an analysis prepared by Economic Consulting Services for the De-

PHOTO: MARY ANN SATTY

Trade Representative William Brock calls services an export "frontier."

partments of State and Commerce and the Office of the U.S. Trade Representative.

Government and ECS statistics differ. Commerce estimates that in 1980, services exports were $35.2 billion and the business of U.S. service firms' foreign affiliates was $93 billion.

ECS, using a combination of industry and government information to establish trends, estimates that U.S. service industries have export business of about $60 billion. It has not estimated affiliates' business.

"It's difficult to know exactly how much business is out there," says an economist in the Commerce Department, "but we know it's growing."

Accounting

Accounting, reports Economic Consulting Services, is "an important behind-the-scenes industry in terms of supporting the international operations of all types of U.S. firms, and rapid expansion in foreign activity is likely, principally through separate partnerships." The industry now generates foreign revenues of more than $2 billion annually, ECS says.

As American firms expand their operations into foreign markets, they often look to American firms for accounting, auditing and bookkeeping services required abroad. Fourteen large U.S. public accounting firms have almost 2,000 offices in other countries.

"International work is a growing part of our business," says W.R. Mette, international managing partner at Alexander Grant & Company. "We had a 20 percent increase last year in the number of clients doing business internationally."

Arthur Andersen & Company has provided services in foreign countries since 1947, according to Ronald Lynch, a manager in the firm. The company's policy is to train foreign nationals to operate its offices abroad. It now has 6,000 such employes.

Lynch reports a particular boom in the market for his firm's services in Italy because of a new requirement that public companies be audited.

Advertising

The advertising field, says Economic Consulting Services, is "extremely competitive internationally yet frequently of critical importance in the international marketing of all types of goods and services." ECS says U.S. advertising agencies are generating about $2 billion in gross income annually.

Foreign operations, the trade publication *Advertising Age* says, produced 37.6 percent of the gross income of the 83 largest U.S. agencies in 1980—up from 35.9 percent two years earlier.

The relative youth of advertising in the developing world has prompted a rush by American agencies to get into international markets. In one case, an American ad campaign is aimed at a market that does not yet exist.

McCann-Erickson Worldwide formed a joint venture with the Jardine-Matheson Trading Company in 1980 to provide advertising services in China.

PHOTO: RICK BLOOM

Commerce Department aid to exporters is "aggressive," Raymond Waldmann says.

PHOTO: WAYNE PARTLOW

Commerce Secretary Malcolm Baldrige urges revision of export-curbing laws.

Western products are being promoted even though they are not available to most Chinese.

"The advertising," says McCann-Erickson's president, Willard Mackey, "is image advertising against the day when the Chinese can buy these products." The Peking government will decide when, he notes, but meanwhile "we are creating a reservoir of goodwill."

Banking

America's banking industry, traditionally regarded as one of the strongest of U.S. competitors on the international business scene, faces "stiffening competition from other countries' banks" in those countries as well as in third-country markets, Economic Consulting Services reports.

U.S. banks often provide financial support that is crucial to other American businesses abroad.

"Banking institutions, through foreign branches, affiliate networks and direct head office participation, have dramatically expanded overseas activities in the past two decades," says ECS.

Assets of foreign branches of U.S. banks rose from $145 billion at the end of 1975, it says, to $290 billion at the end of 1979. At the end of 1979, some 150 U.S. banks maintained 789 branches in more than 100 countries.

International transactions between a bank office and customers in foreign countries have increased, too.

Despite that growth, ECS notes, the U.S. market share of all international banking has been declining since 1965. Many industry observers believe this is

due at least in part to liberal antitrust policies on banking in Japan and Western Europe.

Construction

The construction and engineering industry, Economic Consulting Services says, is "a major generator of U.S. foreign business, both in its own right and as a trailblazer for U.S. merchandise exports."

Some 400 U.S. construction and engineering firms operate abroad. They plan, design and manage the building of railroads, airports, seaports, dams, industrial plants and energy-producing facilities.

In 1980, the trade publication *Engineering News Record* estimates, these firms received contracts for $46 billion worth of projects, some managed by Americans and some completely executed by them. Of the 1980 contract awards, $5.3 billion went to the U.S. firms for their services, ECS says.

Such contracts are in an uptrend. "With the push toward development and industrialization in the Third World, the foreign component of major firms' business has mushroomed," says the Commerce Department's report.

The Middle East offers a huge construction and engineering market. In Latin America, Brazil, Argentina and Mexico are promising markets. Indonesia has provided more contracts than any other country in the Orient.

But even as billings abroad increase, American firms face heightened competition from European and Japanese companies—competition that often is subsidized—and are losing their traditional edge in some markets.

Disincentives arising from U.S. government policies and foreign country restrictions are responsible, according to the International Engineering and Construction Industries Council.

The council's chairman, Raymond J. Hodge, says that in 1979 the U.S. share of the international engineering and construction market was 4.9 percent and seventh in the world. In 1976 it was 16 percent, "and we were No. 1 in the world," Hodge says.

Information

Data processing and computer software services are "likely to be central to the productive structures of industrialized countries in the 21st century," Economic Consulting Services says. "Extremely competitive and rapidly developing, the U.S. industry already accounts for more than $500 million in foreign revenues."

Major advances in telecommunications and data processing technology are making more information more accessible than ever before, promising to revolutionize every form of business activity. And opportunities for U.S. data processing firms are opening up abroad.

The Association of Data Processing Service Organizations says the industry's sales abroad in 1980 were about $600 million, up 39 percent over the year before and 5.6 percent of total sales.

ECS says the most important foreign markets for information services are the Western European countries, Japan and Canada. Areas of South America, Eastern Europe and the Middle East show significant growth potential.

Industry observers believe computer software will become increasingly independent from hardware—the equipment. As a result, says ECS, the total market for software will expand, with foreign competition intensifying.

Concerns of the information industry include:

• Regulation of data across borders by a number of countries, largely to protect personal privacy. For example, in France violators can be severely punished for recording or transmitting data that are categorized as "sensitive."

• Restrictions on use of foreign data-processing facilities to protect local firms. In West Germany, for instance, time-sharing bureaus have been informed that their licenses will not be renewed unless their processing takes place in that country.

Insurance

The U.S. insurance industry, says Economic Consulting Services, traditionally has been "highly prominent in international markets." It "plays an essential role in supporting the foreign sales of U.S. business in general," ECS adds, and is "the third largest generator of foreign revenues among U.S. service industries, earning roughly $6 billion in 1980."

Coverages provided by U.S. insurers make it possible for American firms to operate in foreign markets with protection from many risks.

Some of the major classes of insurance provided are transport coverage, including marine and aviation; coverage related to the installation and performance of goods in international trade; coverage for large risks associated with natural catastrophes, large industrial facilities and political instability; and reinsurance, where one insurer assumes some of the risks originally ac-

PHOTO: FLYING TIGER

The Flying Tiger Line, with the acquisition of Seaboard World, now offers freight service around the globe. This B-747 jet freighter is landing in Hong Kong.

cepted by another insurance company.

The U.S. government has been offering insurance protection for foreign investments since 1934, a practice that has evolved into the Overseas Private Investment Corporation. Private insurers usually complement OPIC activities.

But political instability sometimes causes problems for insurers as well as those companies they insure.

"From time to time we get kicked out of places," says Jack Lancaster, president of American International Underwriters Corporation, which operates in 13 jurisdictions around the world. "We were kicked out of Iran when the Ayatollah [Khomeini] took over, and we're no longer allowed to do business in Nicaragua. We usually find some way to deal with these problems. We just bob and weave."

Lodging

Hotels and motels, Economic Consulting Services says, are "an industry in which U.S. firms have long been worldwide leaders." It points out that "the market outlook is highly sensitive to global economic trends."

Precise information on the share of foreign operations in the total revenues of U.S. hotel firms is not available, ECS says, but foreign revenues are growing. As more nations emerge into the mainstream of the world economy, the U.S. lodging industry is capitalizing on new market opportunities.

In addition to revenues received in other countries, the U.S. lodging industry takes in billions from foreigners who come to this country. ECS estimates that one sixth of the American total business in hotels and motels—which it puts at $23 billion in 1979—comes from foreign travelers.

ECS lists the three leading hotel firms in revenues from the international lodging market as Holiday Inns, Best Western and Sheraton.

"We're in a growth period in our international program," says Joseph A. McInerney, a senior vice president at Sheraton Corporation.

Sheraton's international expansion program began in 1970, when there were only 20 Sheraton hotels outside the continental U.S. and Canada. By last November there were 82, and McInerney projects there will be 84 more by the end of 1986.

PHOTO OPIC

Xerox has begun training programs in Egypt that improve business support services there.

More Sources Of Foreign Funds

Economic Consulting Services gives the following rundown on American enterprises' foreign receipts in five service fields in 1980:

Business, professional and technical services—$1 billion.
Education—$1.25 billion.
Franchising—$1.25 billion.
Leasing—$2 billion.
Motion pictures—$1 billion.

Transportation

Transportation, according to Economic Consulting Services, is "the top-ranking U.S. service industry in terms of international receipts." U.S. airlines and shipping companies, ECS says, had nearly $14 billion in foreign revenues in 1980. Like other service industries, however, air and ocean carriers can find the going tough.

In 1969 U.S. passenger airlines carried 55 percent of all international air travelers, but by August, 1981, the figure had dropped to 48 percent.

One reason, some airline officials say, is that the Carter administration eased restrictions on foreign carriers seeking to fly into the United States. Domestic carriers got access to foreign destinations in return, but officials say it wasn't a fair exchange—those destinations produced less traffic.

The airfreight industry also has encountered stormy skies. Escalating fuel costs have dealt "staggering blows," says Nissen A. Davis, a Flying Tiger Line vice president. A year ago, Davis notes, there were three U.S. airlines primarily devoted to hauling international freight. But Flying Tiger acquired Seaboard World, and the third, Airlift International, went into bankruptcy. (Numerous passenger airlines also offer international freight service.)

America has the world's 11th largest oceangoing fleet, 578 vessels. But in 1950 the U.S. ranked second with 1,170.

Greece, which had 218 ships in 1950, is now the world leader with 2,928. The Soviet Union had 432 in 1950 and now ranks second with 2,530. Liberia, with 89 in 1950, is third today with 2,437, and Panama has grown from 495 to 2,271. Britain, first in 1950 with 2,605 vessels, has only 1,056 today.

The U.S. maritime industry carried more than 60 percent of American imports and exports in 1950, but less than 5 percent in 1980.

C. William Neuhauser, recently retired executive secretary of the National Maritime Council, says, "Our laws and the administration of those laws are out of sync with the times." The industry is pressing for legislation to remove antitrust barriers that inhibit U.S. shipping companies from cooperating so they can better compete with foreign shipping consortia.

The laws may be behind the times, but not the industry. Containerization, which greatly cuts cargo-handling time and costs, began in 1956 at an American company. Today there are more than 1,500 container ships in the world. The largest container-ship company is the pioneer, Sea-Land Investments. □

To order reprints of this article, see page 76.

Don't Make Applicants Feel Like Supplicants

He's all too common—the executive who neglects common courtesy in dealing with job seekers.

By Harry David

YOU ARE an experienced executive or a relative beginner. You are ready for a move upward, or you happen to be between engagements, so you start a job hunt. Suddenly, for no good reason, you are a pariah.

Your current or past status in the world counts for nothing. You may find yourself confronted by the arrogance of the ins, who—consciously or not—will punish you for being one of the outs.

"Even top executives," a friend of mine says, "often lack all understanding of human relations, disregard the feelings of others, including their peers, and are determined not to be messengers of bad news."

If that incivility surprises you, you are probably a rare bird among job seekers. Or perhaps you have forgotten that you once encountered it. But most people do not push such experiences behind them readily.

One of my friends, Vicki Talbott, was recently looking for a job. "Even where there was a job open," she reports, "I had trouble making an appointment. They all seemed to have a protective wall of secretaries around them. If they didn't want people to call, why did they spread the word?

"Then there was the executive who made an appointment with me. Because I knew little about his organization, I stopped by the office to pick up some company material. And do you know what he did? He called me and demanded to know why I wanted all that information. I had to calm him down before he would agree to see me despite what he considered my faux pas."

Then there's Phil Jobe, a methodical man who kept a diary of his encounters with the managing director of a large firm. Jobe knew that the director had lost his top speech writer and was looking for a top-notch replacement. Jobe, a fine but unemployed speech writer, knew two important people who happened to know the director and were delighted to tell him about Jobe.

The first entry in the Phil Jobe diary notes that the two friends in high places said the director had promised to call Jobe and set up an appointment. Nothing happened. Assured once again that the director was delighted to know of his interest in working for the firm, Jobe waited for a call. A week or so later, Jobe decided to make the approach. The director was unavailable and did not return his call. After another week had passed, Jobe called once more. The director was out of town, but he would, Jobe was told, call him on his return. The phone never rang.

Four months later Jobe called one of the important people. An appointment was finally arranged. At the end of the interview the director asked Jobe to write a speech for him and develop some ideas for a public information program. Jobe, an old hand at the task, wrote a speech and sent in some ideas. His prompt response was never acknowledged.

Five weeks later Jobe tried to check in with the man, who was unavailable. There was no return call.

The diary's final entry states that this lead is a hopeless cause.

THAT KIND OF incivility is chilling even for people who have secure jobs. A year ago, a friend who holds a key position in a large Southwestern company was invited by an even larger enterprise to submit his credentials. It sounded alluring, and he did as asked. Weeks passed, and nothing happened. To this day, he has not received an acknowledgment.

He shrugs his shoulders in gentle self-mockery: "I guess this is the way we employers are."

But you, as the employer, don't have to be.

Some executives are amazed by the applicant-be-damned attitude of so many of their peers. "If people are interested in us," says the National Restaurant Association's president, Robert E. Bradford, "we must show a genuine interest in them. It's a compliment when someone says, 'I want to work for you.' Also, remember that the recruiting and hiring process is one human being dealing with another."

How do you bat in the field of insider-outsider relations?

- Do you have a wall of secretaries and other watchdogs protecting you?
- Do letters from applicants mysteriously disappear?
- Do telephone messages remain undelivered? Are calls cut off at the pass?
- Do you keep job applicants waiting for interviews and make them feel like supplicants rather than potential contributors to your organization?
- When you make a decision, do you notify the unsuccessful applicants?
- Do you pass on leads about other jobs to qualified candidates?

There are good reasons to display such courtesies when you're seeking new people for your company. A successful executive sums it up:

"After all, I've been there, too. When I needed a job years ago, some people helped and others did not. I remember both.

"And there is a professional reason. The track is small and round. Today's junior exec may be tomorrow's top guy. I hope he will remember—as I do—those who helped him." □

To order reprints of this article, see page 76.

"Patience Is the Key"

You can do well in Arab markets if you remember two Arab proverbs.

By Carl Grant

MAP: JOHN QUINAN

OPPORTUNITIES abound for business in the Arab world, and American business could be doing a lot better there. That's the consensus of a U.S. Chamber of Commerce delegation after a trip to five nations in North Africa and the Middle East—Morocco, Egypt, Saudi Arabia, Kuwait and the United Arab Emirates.

In the delegation were the Chamber's president, Richard L. Lesher; its director of Middle East affairs, John G. Sarpa; and myself, vice president for communications.

The two-week mission was designed to increase understanding on all sides and to expand trade and investment.

Today's wealthy Saudi Arabia, Kuwait and United Arab Emirates have virtually sprung up out of the sand in recent years, using tremendous oil revenues to construct modern cities where tents once stood. Now these countries have begun to shift emphasis from infrastructure—schools, roads, ports, hospitals, communications, commercial establishments—to expanded investment and, particularly in Saudi Arabia's case, broader industrialization.

The situation in Morocco and Egypt is markedly different. Both countries are struggling to improve economic conditions. Morocco has an abundance of important minerals, such as phosphates, but it has few energy resources, although a serious search is beginning. Egypt, whose greatest natural resource historically has been the Nile Valley's agricultural capacity, produces a moderate amount of petroleum and exports small quantities. There have been fairly promising discoveries recently; the full extent of Egypt's oil reserves is unknown.

Saudi Arabia, Kuwait and the United Arab Emirates are looking for investment opportunities in the United States for their surplus funds. They also are markets for U.S. products and for American know-how in joint business ventures.

Morocco and Egypt want to encourage U.S. investment to build industrial bases and create jobs. They hope this will produce trade that will improve living standards.

Two requirements must be met if U.S. business interests are to improve their performance in the five countries.

First, Americans must devote more time to establishing ties. The key, as one businessman with a record of success in the Arab world puts it, is to remember two Arab proverbs: "Speed is from the devil" and "Patience is the key to victory." Business people in these countries are strongly motivated by personal relationships, which are not built overnight. It takes time and sometimes even initial financial setbacks to reap returns.

Second, U.S. government restrictions that put American business at a disadvantage must be modified. The Foreign Corrupt Practices Act and laws that prohibit U.S. companies from actions that tend to support boycotts of friendly nations must be revised. Also, legislation to allow establishment of export trading companies should be passed.

The U.S. has lost ground on new business in these five countries to Europeans and Asians, who have been encouraged, not restricted, by their governments.

On the following three pages is a pictorial report on aspects of each country.

PHOTOS: CARL GRANT

MOROCCO

Morocco, a North African kingdom where shopping areas offer sharp contrasts between old and new, has seen little U.S. investment in recent years. But that could change. Morocco is considered to have significant development potential, despite short-term financial problems. (It is fighting a costly war with Polisario guerrillas seeking independence of the former Spanish Sahara in southern Morocco, and it has been hit by a drought that has necessitated huge grain imports.) Upper left: the U.S. Chamber's John Sarpa, Richard Lesher and Carl Grant at the palace of King Hassan in Rabat.

KUWAIT

Who wouldn't like to be in Kuwait's shoes? It has more money than it can spend. This small nation with large oil reserves—third behind Saudi Arabia's and the Soviet Union's—constantly seeks investment abroad. Labor-short Kuwait sees only limited industrial potential at home, where a National Assembly complex (above) and new mosques are part of a building boom and where fishing in *dhows*, once a mainstay of the economy, is in decline. Kuwait Chamber of Commerce President Abdul Aziz Al-Sagar (inset) urges U.S. evenhandedness between Arabs and Israelis.

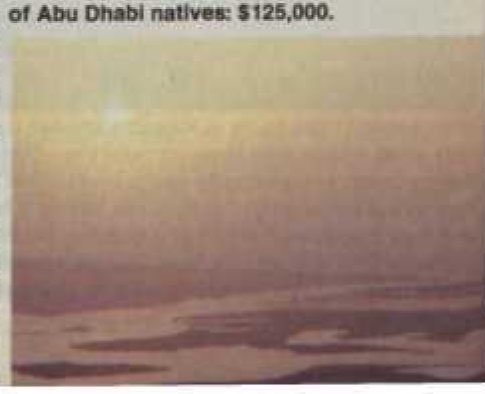
SAUDI ARABIA

Saudi scenes: U.S. businessmen pack a meeting to hear Lesher in Riyadh; the busy port of Jeddah; flaring of natural gas, once almost as symbolic of the kingdom as its oil. The Saudis now have a program to use such gas, released in oil drilling, as fuel for new industries. Among key figures in U.S.-Saudi relations: Ambassador Richard Murphy (above, right) and (below, left to right) Sheikh Abudawood, Jeddah Chamber of Commerce chairman; and Prince Majid Ben Abdul-Aziz, governor of Mecca.

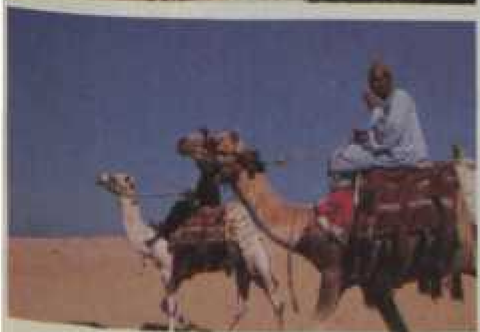



UNITED ARAB EMIRATES

Sheikh Al-Nahayyan (inset), deputy governor of the United Arab Emirates Central Bank, sees a tremendous need for U.S. products in the Emirates, seven autonomous city-states scattered along a barren, island-dotted coastline. Japan and Britain lead in exports to them now. Their capital, Abu Dhabi (left), contained little but tents only a decade ago. Average income of Abu Dhabi natives: $125,000.



Egypt has the Arab world's largest population (more than 42 million) and the whole world's longest continuously recorded history (5,000 years). Its per capita income, though, trails that of many countries, and President Hosni Mubarak (below, left) is eager for U.S. investment that would raise Egyptian production. Mubarak met with Lesher, and the two reaffirmed the warm relationship between Egypt and American business. That's crowded Cairo at left.



Ninety-nine percent of Egypt's population is compressed into 3.5 percent of its area—the ribbonlike Nile Valley, where you see scenes like those at right, and the Nile Delta. The rest of the country's 386,000 square miles is desert, including the site of the largest pyramid (above), built by Pharoah Cheops. Essentially, rain is limited to the northern coastal area, and it's only 8 inches a year.□

Keeping a "Mighty Pump" In Prime Condition

The chairman's positive attitude is one of the greatest assets of a giant insurance company.

By Tony Velocci

Prudential

SOON after becoming a full-time agent for the Prudential Insurance Company of America, Robert A. Beck went eight weeks without making a sale. "I remember coming home and taking my dinner to the bedroom to eat because I couldn't face my wife anymore," he says.

Unsure of the cause of his slump, Beck, who was then 26, sought answers to his problem one night on a hilltop overlooking Syracuse, N.Y., where he and his wife, Frances, lived at the time. There, in solitude, he says, "I began to reconstruct my whole life."

After three hours of contemplation he didn't know more about selling, and he didn't have additional sales prospects, yet the Bob Beck who walked down that hill wasn't the same demoralized young man who had gone up.

"When I came down, my determination was at a new peak; my problem had been my attitude," he says. Beck had decided that the first place to look when something went wrong was inward. "I became convinced that with a positive attitude, you can become what you want to be."

It so happened that Beck wanted to be head of Prudential, a goal he set for himself after rebounding from his sales slump. "That's the kind of thing people are reluctant to admit," he says, "but people remember my saying that was my goal, so I guess it's something I can't disavow."

The lessons Beck learned, like the importance of positive thinking, served him well: At the relatively young age of 53 he became Prudential's chairman and chief executive officer. Only one other person who started out selling insurance has become the company's chief; that was John F. Dryden, who founded Prudential in 1875.

To this day, Beck, still driven by a door-to-door salesman's enthusiasm, refuses to allow negativism to influence his daily life. "Bob is the most upbeat person I have ever known," says acquaintance James E. Burke, chairman and chief executive officer of Johnson & Johnson, the health-care company.

Beck doesn't think in terms of disliking any particular aspect of his job, although he prefers the "more purposeful" responsibilities to ceremonial obligations. At home he shuns negative conversation. "People aren't born with a positive outlook; they have to develop it," he says. Beck used to stand before a mirror the first thing every morning and lecture himself, resolving that he was going to feel great and achieve outstanding results that day.

After five years "that attitude became an absolute mental set," he says. "Now there is no way I can leave home in the morning without feeling good."

For most people that kind of discipline would be just another desirable asset; for Beck it's probably nothing short of a blessing. Awaiting him each morning are the responsibilities that go with overseeing one of the most successful—and in some ways one of the most powerful—business enterprises.

Prudential is the largest private money manager in the United States. Within the insurance industry it overwhelms the competition. It is 25 percent larger than its nearest competitor, Metropolitan, and nearly 75 percent larger than third-ranked Equitable. Its assets total a staggering $61 billion, mostly in stocks, bonds and real estate. It owns, for instance, such prestigious properties as the New York Hilton Hotel and San Francisco's Embarcadero Center.

AT TIMES Prudential has been called a "mighty pump" because of the huge sums it takes in daily and pumps back out in investments. Every day the company invests another $24 million.

For more than a decade Prudential has been expanding from a mutual life insurance company, in which the policyholders own "a piece of the rock," into a broad-based financial products and services giant. It is a powerful force in equipment leasing, commercial real estate, and property and casualty insurance. Last year the company, based in Newark, N.J., moved into still another area: retail financial services. It bought the Bache Group, the sixth largest brokerage firm in the country.

Despite diversification, life insurance remains by far Prudential's largest source of funds, in 1980 accounting for $4.6 billion of its $13.9 billion of total

income. The company insures more than 50 million people and employs more than 24,000 agents worldwide. At the end of 1980 the face value of all of Prudential's life insurance in force exceeded $406 billion.

Robert A. Beck, wasting no time in his daily commute to Prudential, works in the back of his company limousine.

Managing such a sprawling business has done nothing to spoil the affable nature of the 56-year-old CEO. Beck, who grew up in the Bronx, says strong guidance at home laid the foundation for his success today. "My parents never let me forget the value of work, studies and commitment," he says.

From an early age he was drawn to the military. Some of his ancestors fought in the Revolutionary War, and his father, Arthur, was a career Army officer who served in Gen. John T. Pershing's expedition against Pancho Villa and in both World Wars. Beck was eager to enlist in the military himself, so at 17 he joined the Army Special Training Reserves and, after completing officer candidate school, wound up in the 82nd Airborne Division.

Beck is frequently reminded of lessons he learned from his father. On a conference table in his office, for example, lies a weighty Army pick his father gave him with this message inscribed on the handle: "If you can't find a way, make one." In an adjacent glass case are a branding iron and a candle, also gifts from his father.

"The branding iron signifies one's reputation," explains Beck. "If it's ever smashed, it is no simple matter to rebuild it. My father carried the candle around Berlin during the airlift, just after World War II, so that he would always have a sure source of light in case of blackouts. The lesson there is always to have a backup plan."

When the young Beck was in officer candidate school, he received a 10- to 15-page letter from his father almost daily. The recurring theme: An officer's responsibilities precede privilege. "You get that message for 17 weeks, and it has one heck of an impact," he says.

While serving in the 82nd Airborne, he was appointed the division's insurance officer, his first introduction to the business of insurance. He conducted a series of group meetings so he could explain the life insurance program to all 15,000 men in the division. By the time he finished, 99 percent of the outfit had signed up.

Once out of the Army, Beck attended Syracuse University on the GI Bill and sold insurance part-time for Prudential. He majored in business administration, with emphasis on marketing and insurance. After graduating summa cum laude, he took a job as a financial analyst with Ford Motor Company but quit inside of a year because the work wasn't fulfilling enough. Hoping that

At the office, Beck begins his busy schedule by giving his secretary her assignments for the day.

Prudential's Syracuse office would hire him as a full-time sales agent, Beck, accompanied by his wife and the first of their five children, drove from Detroit to Syracuse in a blizzard. They had $46 to their name, plus $500 Beck had borrowed. He got the job.

Beck enjoyed selling insurance for Prudential. Specifically, he liked being able to make his own hours and not having to barter with people over price, as in some other sales fields. He was proud of the product; Prudential was a reputable firm. He enjoyed dealing with people. The thought of having a job in which his wife could share also appealed to him. "I knew that my clients would become my friends, and both Frances and I would enjoy their company," he explains. Finally, Beck knew insurance was a business in which income and opportunity are limited solely by one's initiative.

After a good night's rest of four or five hours, Bob Beck takes leave of his wife, Frances. They met at age 18.

Beck was an agent for only 14 months before he was promoted to a succession of managerial positions. Several of them called for training others. "I thrived on helping people develop and become successful," he says. Beck also discovered that he could learn from their mistakes. "I was forced to think through problems and apply my own skills to do that person's job better."

There were times when he passed up promotions because he didn't think certain jobs were right for him. "I feel strongly that people have a responsibility to always level with their superiors," he says. "If people are good performers, then passing up a promotion shouldn't be held against them."

He also believes that people should stand up for what they believe in. Shortly after becoming CEO, Beck sequestered his senior officers for seven hours. "Don't tell me what you think I want to hear; tell me what you really believe," he told them. "I will fault you if your rationale doesn't hold up."

Last fall, on the last day of an officers' conference, a Prudential executive told his colleagues—Beck was in the audience—he thought all their talk about expense management was just that, a lot of talk. When Beck wrapped up the three-day meeting, he thanked the man for his remarks. "I didn't agree with a large part of what he said, but it was important that he felt comfortable saying exactly what he thought—and that all the other officers saw he didn't get his head chopped off as a result," says Beck. "Only through that kind of dialogue—and mutual respect—can we reach solutions to problems."

HIS PASSION for work is well-known. To start with a problem and find a solution is what gives him his biggest kick. "Once it's finished," he says, "it's almost anticlimactic to consider the rewards." Observes one associate: "Bob's methodical, organized approach to a situation is one of his hallmarks."

Beck, who sleeps only four or five hours a night, is occasionally asked where he gets all his energy and enthusiasm. "Apparently, I have the kind of metabolism that enables me to get by without much sleep," he says. "As for my enthusiasm, I'm sure that's a result of my positive outlook."

A typical day for this executive starts about 6 a.m. with a vitamin pill and a glass of juice. Forty-five minutes later he slips into the back seat of a limousine that carries him from his home in Rumson, a quaint New Jersey seashore community, to his office in downtown Newark 50 miles away. The car is outfitted with a desk, telephone, office supplies, and pouches designated "For File" and "For Action."

Beck accomplishes some of his most productive work of the day there. "It's quiet work without any interruptions," he says. He's in the office by 8:15 and by 9 has given his secretary all her assignments for the day. Then it's meetings straight through.

Around 6:30 p.m. he leaves for home, toting two and sometimes three briefcases full of work. After dinner with his wife, Beck works in his study until midnight. He likes to read biographies before going to bed at 1 o'clock or so.

Beck sees himself as having two basic responsibilities as chairman and CEO. The first is to make sure Prudential's strategic plans are constantly evolving to reflect the issues that the company faces both internally and externally. "I must also ensure that good people are coming into the company," he says, "and that they are being developed to their fullest so the manpower succession needs Prudential has now, and will have in the future, will be met."

For the past 25 years, a single planning sheet has been the heart of Beck's daily organization. It spells out where his key officers are, what meetings are scheduled and which calls he should make, in order of priority. At the end of each day Beck reviews the sheet to see how productive he has been.

Beck is also involved in about 50 outside activities, ranging from service on boards of directors of other major corporations, like Xerox, to volunteer organizations, such as the United Way of America (he will be the next chairman). So committed is Beck to "really participating" instead of being "just a token member" that he is either chairman or vice chairman of 14 outside organizations.

Does he ever feel he's spreading himself too thin? "You bet," he says. "It only means I have to do more formal planning to handle it all." The reason

for Beck's extensive outside involvements is his belief that Prudential is more than just a business—it is also a social force. "This corporation and its senior officers have responsibilities that come from being in business," he says. "We have an obligation to return something to our communities."

Among Beck's leadership obligations is chairing the Business Roundtable's task force on Social Security and pension policy. Social Security is an issue that Beck takes to heart, and he is committed to raising the public's level of understanding of how the program works and to solving the problem of putting it on a firm financial footing.

"Our first job is to take the emotionalism out of the issue so that reasoned people, working together, can come up with reasoned solutions," he says. "Our Social Security dilemma is a serious problem because it creates uncertainty in the minds of Americans everywhere, and it is very much a part of the nation's most pressing domestic problem—inflation." Last year *Time* magazine identified Beck as being among the "leading new spokesmen" in Washington who are likely to play an increasingly important role in shaping major policy issues.

Not all of Beck's time is devoted to work; it just seems that way. Between Friday night and Sunday afternoon—he usually spends Sunday nights preparing for the week—it's purely leisure. None of his three sons and two daughters, ranging in age from 19 to 32, are at home. "It's great when they come home, but it's good when they leave," he says. Beck and his wife like having their two-story colonial home all to themselves. "We enjoy dancing, attending parties and playing golf together," Frances says. She accompanies her husband on about a third of his business-related travels.

Beck's range of leisure interests seems almost as broad as his professional activities. Jogging and squash help keep him in condition. He frequently ventures out into the Atlantic for deep-sea fishing in his 24-foot power boat. He scuba dives all over the world. Until recently, he braved hang gliding. Prudential's chief actuary ordered him to quit that pastime, however, when he sought to buy more life insurance.

THINGS aren't likely to slow down much for Beck when he retires in nine years. "I've already started compiling a list of what I want to do," he says. Law school is a possibility. He is likely to stay on some boards, both community and business. "I also intend to read all 10 volumes of Will Durant's *Story of Civilization* before I die," he says matter-of-factly.

Something else that's likely to keep him occupied is a book he started to write years ago but never finished. All 20 chapters are outlined and the contents assembled. "It's probably my biggest unfinished task," he says. The title: *Success Is Easier Than Failure*.

No one should know more about that than Bob Beck, who laments that too few people come close to attaining their full potential because of lack of motivation. "They put in time rather than use it," he says. "It's a shame that so many people live and die with the music still in them.

"Why not feel the thrill of getting something done, of winning, of being in front of the pack? Even if you don't make it—and there are times when everybody has doubts—a great deal of the job of life is reaching out for one's dreams. That's what living is all about." □

To order reprints of this article, see page 76.

New Forms, New Rules

By John Hanly Adams

Tax forms now reflect the Economic Recovery Tax Act of 1981. The sooner you study them, the bigger the jump you will have on that April 15 deadline.

IRA and Keogh Pitfalls

A new era starts January 1 for Individual Retirement Accounts and Keogh (H.R. 10) plans for the self-employed. They offer excellent tax shelters for all who can save some money. But there are catches.

You have to set up your IRA in a trust with an approved financial institution—bank, savings and loan, credit union, insurance company, etc. To meet the legal responsibilities of their role as trustees, institutions put restraints on the way they invest IRA money, and they also must obey the new provisions of the 1981 tax act, including the rule about not investing in collectibles.

Although you can shift your IRA to a new trustee as investment opportunities change, watch for penalties. Some institutions do not accept rollovers.

If you draw money out of an IRA before you are 59½ years old and do not roll over that amount into a new retirement fund, you pay a penalty of 10 percent of the money withdrawn, plus your regular income tax on the sum.

You can't borrow from your IRA or use it as collateral for a loan. At age 70½ you must start withdrawing the money accumulated in an IRA. Minimum yearly withdrawals are determined by actuarial tables, and you will owe income tax on that money when you take it out.

Rules are basically similar for one-person Keoghs but get more complicated if employes are involved.

The big advantage of IRA and Keogh plans is that once started, the tax-free compounding of interest can work wonders. At 8 percent interest compounded, your money nearly doubles in about nine years. If you and a working spouse put aside the current IRA maximum of $2,000 a year each for 30 years, you could come close to becoming millionaires. But don't get excited about that pot of gold: If inflation isn't checked, being a millionaire won't mean much.

More Home Offices?

A deduction for home office expenses may soon be easier to get.

The Tax Reform Act of 1976 decreed that space in a home claimed as used for business had to be used exclusively that way and had to be your principal place of business. That ruled out deductions for most people who used home space to supplement the office provided by an employer or to moonlight. Because of widespread complaints and pending House legislation, Treasury is rewriting the regulations.

If you have some income from a secondary trade or business operated out of your home, you would be able to deduct the home office's proportionate share of maintenance, utilities, rent, etc. You could even file amended returns for past years if you thought it worth the trouble (deductions can't exceed the net income of the business).

Two cautions: Claiming this deduction may increase the chance of an audit, and the percentage of your home attributed to business use will reduce the amount of gain that can be sheltered from tax when you or your heirs sell the house.

Auto Deductions

A taxpayer who uses a car in business and claims a deduction for business expenses can almost certainly get a larger deduction by keeping records of actual expenses instead of using the standard mileage allowance.

That 20-cents-a-mile allowance is the same as it was in 1980 despite the rising costs of nearly everything, and you are stuck with that figure unless you have records to show the actual cost of your business car operations. Start keeping records for 1982 and reap a nice tax saving next year.

Stiffer Penalties

The free ride is over for those who delayed or underpaid their taxes and cheerfully paid 12 percent interest on their deficiency while earning much more in money-market funds. Starting February 1 the interest rate jumps to 20 percent.

When an underpayment results from negligence or intentional disregard of the rules, the old 5 percent penalty will apply, plus a new one: 50 percent of the interest due on that underpayment, in addition to the interest itself.

Also: Overvaluation of property that results in underpayment of tax can now bring a penalty of 10 to 30 percent of the underpayment, depending on the amount of overvaluation. This can bite you in a tax shelter deal or charitable contribution claim in which the deduction is keyed to the cost of the property.

Easier Family Rentals

Help is on the way for those who rent a residence to a family member.

Internal Revenue Service regulations have interpreted the law in such a way that renting to a family member constitutes personal use by the owner. This has meant that the owner in the typical case takes deductions for mortgage interest and taxes but not for operating expenses and depreciation—deductions that are available on other property.

Legislation moving through Congress would change Section 280A of the Internal Revenue Code so a taxpayer would not be considered to be using a residence for personal purposes when he rents it to another person—family member or not—at a fair market rental. But "transactions between family members will be scrutinized closely," officials warn. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

Solar Heat for the Frost Belt

BY JOSEPH R. FRISSORA'S reckoning, the infant solar energy company he founded and heads "could be another Xerox"—a shining symbol of the success possible through innovative technology.

Whether Sunmaster Corporation reaches such heights remains to be seen, but it has a unique product, it is profitable and it is growing. The product: a solar collector system that performs just about as efficiently on overcast days as in bright sunshine and whose temperature buildup is high enough for space or water heating in a variety of climates. The most profitable of the firm's 100 dealers is in Anchorage, where cloudy days are the norm.

"The Sunmaster product, which extends solar use to regions outside the sun belt, is a major step forward," says William Schertz, manager of solar applications at the government-funded Argonne National Laboratory.

PHOTO: SUNMASTER CORP.

President Joseph Frissora (left) and Chief Engineer Michael Platt say Sunmaster's product is the most efficient solar collector on the market.

Crozer-Chester Medical Center in Upland, Pa., for example, has a $183,000 Sunmaster water-heating system that saves more than $17,000 a year, according to Mark Mitchell, administrative assistant.

Says Joe Frissora, "Our biggest competition in the marketplace is ignorance of what an efficient solar system we have."

At the heart of all solar thermal systems are collectors that absorb heat from the sun. They may be flat, as most collectors are, or tubular, like Sunmaster's. In both designs, a circulating fluid absorbs warmth and delivers it to a storage tank for space heating or to a water heater.

Sunmaster makes an evacuated-tube collector—a tube within a tube, separated by a vacuum, which traps heat. The collector functions much like a thermos bottle.

Compound parabolic reflectors, designed by the Argonne lab and licensed to Sunmaster by the Department of Energy for a nominal fee, are mounted behind the tubes. The two mirrors focus both diffuse and direct sunlight on each tube no matter what the position of the sun overhead.

IN PERIODS OF low or no sunlight, the Sunmaster collector, whose fluid is tap water, automatically drains itself—important because freezing is probably the biggest peril to solar heaters in cold climates. The draining obviates the use of corrosive antifreeze as the circulating fluid.

The Sunmaster system's drainage feature, for which Frissora holds the patent, and its combination of components—evacuated tube, parabolic reflectors and other parts—make it one of a kind.

A chemical engineer by training, Frissora was no stranger to entrepreneurship when he founded Sunmaster. He had already formed two successful electronics firms. One has been acquired by Corning Glass. The other is Andover Controls, where he is still chairman and a principal stockholder. Andover will have an estimated $5 million in sales this year.

Frissora, 48, acquired a working knowledge of solar energy in one of his first jobs after graduating from Northeastern University—designing space payloads at an Air Force research center. Some years later, he was in charge of Corning's solar energy programs.

Just before he launched Sunmaster, he was working as an independent solar design consultant. One of his clients was Owens-Illinois. In 1977 he convinced the giant company that his idea was worth investing in.

Owens-Illinois provided him with more than $500,000. In 1978 Frissora and a group of co-workers shipped their first product. Sunmaster, headquartered in Corning, N.Y., had sales of $2 million in 1979, its first full year of operation. Hospitals, schools and other institutions accounted for most of that.

The company expects sales to top $4 million this year. "Residential sales are starting to take off," says Frissora.

Owens-Illinois has a substantial minority interest in Sunmaster (Frissora owns most of the stock), and it supplies Sunmaster with evacuated tubes. Owens-Illinois also produces a line of solar collectors.

Frissora says an understanding family and his pairing of known technologies with his own ideas have been instrumental in Sunmaster's success.

He recalls "snatching victory from the jaws of defeat more times than I care to remember" at Sunmaster. "It has been a battle, getting our technology recognized," he says, but when he surveys the huge market for fuel-saving products, he has no regrets: "It looks like the sky's the limit." □

—Tony Velocci

Hurdling the Barriers to Creativity

Or

How To Become More Like a Raccoon

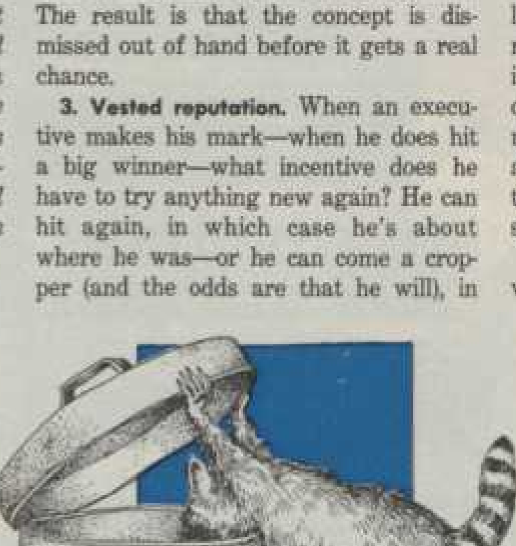
Whether large or small, a company must innovate or deteriorate, says Frederick D. Buggie, a consultant specializing in corporate growth and development. But coming up with good new-product concepts can be very difficult. In this excerpt from his book, New Product Development Strategies, *Buggie lists obstacles that stand in the path of creativity and suggests ways executives can overcome them.*

CREATIVITY—the ability to generate new options—is inherent in all of us, to a greater or lesser extent. The ability may be latent, but it's there. And the first step to "accessing" that skill, for application to practical business tasks, is to recognize the hindrances to creativity that the typical corporate executive faces. Here are six corporate hindrances:

1. The price of being wrong. In some companies an executive gets only one chance to make a mistake, a big mistake for which he is clearly and solely responsible. Other companies are more tolerant. But in no organization is it beneficial to one's career to fail frequently. Therefore, the safest course for the executive, by all odds, is to keep on keepin' on—doing things in accordance with standard practice, according to policy, and take no chances. The surest way to avoid mistakes is not to try anything you haven't successfully done before.

2. The need for justification. All organizations number among their members guardians of the present order. Anything new is viewed with suspicion. A new idea could cost money, change priorities, diminish responsibility, dilute effort—or cause a hundred other corporate disasters. These friendly keepers of the status quo generally preface their criticism with "I'm just playing devil's advocate, you understand," and proceed to devastate your fledgling idea. The result is that the concept is dismissed out of hand before it gets a real chance.

3. Vested reputation. When an executive makes his mark—when he does hit a big winner—what incentive does he have to try anything new again? He can hit again, in which case he's about where he was—or he can come a cropper (and the odds are that he will), in



which case his reputation as a creative genius becomes somewhat tarnished. So he is in a no-win situation, and the best thing he can do is tuck in his neck and rest on his laurels. One big success can ruin a creative contributor. Of course, that is not always the case. Some people are incorrigible inquirers; they simply ignore the end results of their creative probing and continue to come up with new possibilities.

4. Pressure to produce. The folkways of business demand that employes give the appearance of being "earnestly engaged" at all times during working hours. That is, they should give some evidence of motion, or at least consciousness, and consistently exhibit "seriousness of purpose." That all relates to the *process* of business. With respect to the *results* of business, there is some presumption on the part of the corporation that there will be some measurable outcome from this activity after a period of time—a presumption that on its face does not seem unreasonable.

But here's the rub. In the first place, when someone is truly engaged in strenuous creativity, he may show no outward signs of life, and furthermore, he may adopt a most unbusinesslike posture or situate himself in a very unworklike station. And secondly, there may well be no physical traces of his hard work—nothing to show for all that creative effort. Yet the new concept he has generated may revolutionize a process, create a whole new product line or reorganize the company.

On the other hand, he may just be goofing off. You can't tell from outside.

5. Overmanagement. In order to have the opportunity to work at creativity, the worker must be left to his own devices. Yet between responsibilities assigned, schedules and deadlines to be met, the organizing and supervision of teams and individual workers (plain meddling), and miscellaneous irrelevant distractions, the executive often has little opportunity for creativity. There is simply no time to spend contemplating possible new approaches to problems. The only safe course is to follow the thoroughly predictable procedure that has proved adequate in the past.

6. Frustration forecast. Even if an executive has the opportunity to generate truly creative solutions—and possesses the temerity (foolhardiness) to do so—he may refrain from the effort because he has been conditioned by the corpora-

tion not to bother. Many companies simply do not respond at any level to the stimulus of a creative proposal. It's a bit like throwing a rock into a tar pit—no ripples, no bubbles, nothing at all. It just sinks out of sight. After a few experiences of that sort, the innovative executive may rightly conclude that he should devote his energies to activities that will have greater impact on the organization and result in more tangible benefits.

At first blush, these built-in hindrances to creativity may seem overwhelming. But I can assure you that all of them can be overcome.

What you have to do is become more like a raccoon. Raccoons are quite creative in getting what they want. Empirical evidence abounds. Just open up the subject of the exploits of raccoons at any cocktail party on Gibson Island, Md., for example. You will hear all kinds of tales—eyewitness reports of one raccoon standing on the shoulders of another to reach the top of a garbage can and similar exploits to achieve their goals.

Any animal with a sufficient number of brain cells has the capacity to be creative. Man has 10 billion brain cells—far more than he needs to be creative. But man alone among animals commonly elects to restrict the uses of creativity to solve problems. The handicap is a matter of choice by default. If a person wants to slough off this handicap and avail himself of the additional working tool—creativity—he can do so by following some simple rules.

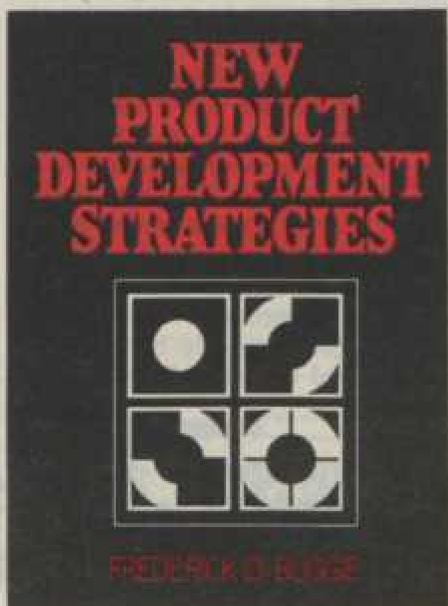
Rule 1: Necessity is the mother. There has to be some incentive, a strong incentive, to stimulate people to innovate or create. For the raccoon, the incentive of accessible food is enough motivation to get the trash can lid off.

Rule 2: Be positive. You've got to have a positive, optimistic attitude. You can't be a grump and believe that no good can ever come from anything different or new. You've got to believe that improvements are possible.

Rule 3: Collect relevant new data. With a little creativity you *can* turn a sow's ear into a silk purse—but you've got to have the sow's ear to start with. You can't make something from nothing. So begin not by trying to find a shortcut—a lucky hit to the answer—but by packing relevant raw materials to work with in your brain.

Rule 4: Change your perception. If you look at a problem from the same perspective that you have always looked at the problem, you're going to come up with the same old answers and roadblocks. So the solution is, first, don't look at the "whole problem"—break it into separate parts and pieces—and, second, find some way to really see (perhaps for the first time) those elements of the whole.

Rule 5: Think in sequence, not in parallel. If you start evaluating your ideas—whether they are good or bad, whether your second idea is better than your first, whether an idea is good enough to do the job that you're trying to do—you will soon bog down and prevent yourself from coming up with new "qualified" ideas. So think wholly creatively first, accepting all ideas that come to you without eliminating anything. Only then sort out the good ones. Incidentally, during this phase you may find it possible to refine, combine and improve the original seed ideas.



Rule 6: Tolerate ambiguity. The French mathematician and philosopher Poincaré said, "Disorder is the condition of the mind's fertility." Don't try to organize your thoughts or control your mind's meanderings: That's the job of the left side of your brain. It is the right side of the brain that is active in appositional, nonanalytic thought. You must withstand a bout of random fishing and searching without demanding the safe harbor of a "settled matter."

Rule 7: Work at it. As with any tough job, to achieve results you've got to try hard. Using creativity, like using a shovel, is not a dilettante's dalliance. You must persevere.

Rule 8: Eliminate distractions. Generating new ideas requires uninterrupted concentration. Otherwise you may think you're thinking about the subject when you're actually musing about the interference. It's essential that you get away from your telephone and your in-box and those appealing "little" jobs.

Rule 9: Look for 100 ways, not the answer. Assuming that you have selected an open-ended problem—one that will admit of more than one adequate solution—recognize that there are a number of acceptable "right" answers as well as an infinite number of wrong answers. Generate as many possible answers as you can. The larger your pool of possibilities, the more likely that a winner (or two) will be among them.

Rule 10: Verbalize. Words are the tools of thought. Don't underestimate the value of words as stimuli of creativity. Your brain bone may be connected to your tongue bone—in which case, start talking. Or your brain bone may be connected to your fingerbone—in which case, start writing. But don't just stare at the problem.

Rule 11: Don't trust your memory. The high rate of deterioration of the ability to recall has been scientifically proved. New ideas are ephemeral. Record them before they are lost irretrievably. Ideas do not have the courtesy to announce themselves in advance, so be ready to trap them whenever they show up.

Rule 12: Let up—gestate. After you have focused on the task over a period of time until you are about used up, leave off! Go to something else—rest, play, sleep. Your subconscious will take over and continue the probe-and-search operation automatically.

Rule 13: Iterate. After a period of gestation, come back to the problems afresh. Your subconscious will then donate its contributions. Once you have judged the pieces and parts, select the good ideas and concentrate only on them. Use them as points of departure for another creative climb from your new plateau. Finally, practice.

Rule 14: Quit. There will come a point when additional creative effort becomes marginally productive. After you have done a workmanlike job, don't continue seeking the holy grail. The task is complete. Take the best solutions—and implement them.

Rule 15: Don't follow rules. Bad ideas as well as good ideas follow rules. Loosen up. Smash a few icons. Do it *your* way, whatever way works. Everybody's different. □

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Take a Corporate Approach To Family Life

By K. Wayne Scott

THE COMING YEAR may bring some of the toughest challenges you've ever faced in your career as you cope with stubborn inflation, determined competition, vexing uncertainties and countless other pressures.

Whether you're the CEO or a new employe with high potential, you're more likely to be productive under stress when you have the support of your family. Here's an example:

When Donald M. Kendall was invited to be chairman of the Chamber of Commerce of the United States, he let the Kendall family board of directors—himself, his wife and their two young sons—determine his response (see NATION'S BUSINESS, Lessons of Leadership, May, 1981). As chairman and chief executive officer of PepsiCo, he was already away from home often. He wanted to accept the Chamber post but was willing to abide by a negative vote from his family. Their unanimous yes and continuing support have been essential to his success in both jobs.

Perhaps you feel you don't have time for board meetings at home. Then just try one or two, applying your very best leadership skills.

Checking your attitude is a good place to start. You already know that a board of directors is most effective when all members share a commitment to help the organization succeed. You'll have to decide how far you're willing to go in giving your children a piece of the action.

No single solution will apply to all families. But in general you're more likely to succeed by nurturing participatory management rather than dominating with an authoritarian style.

Many objectives could be achieved in your board meetings. For example:

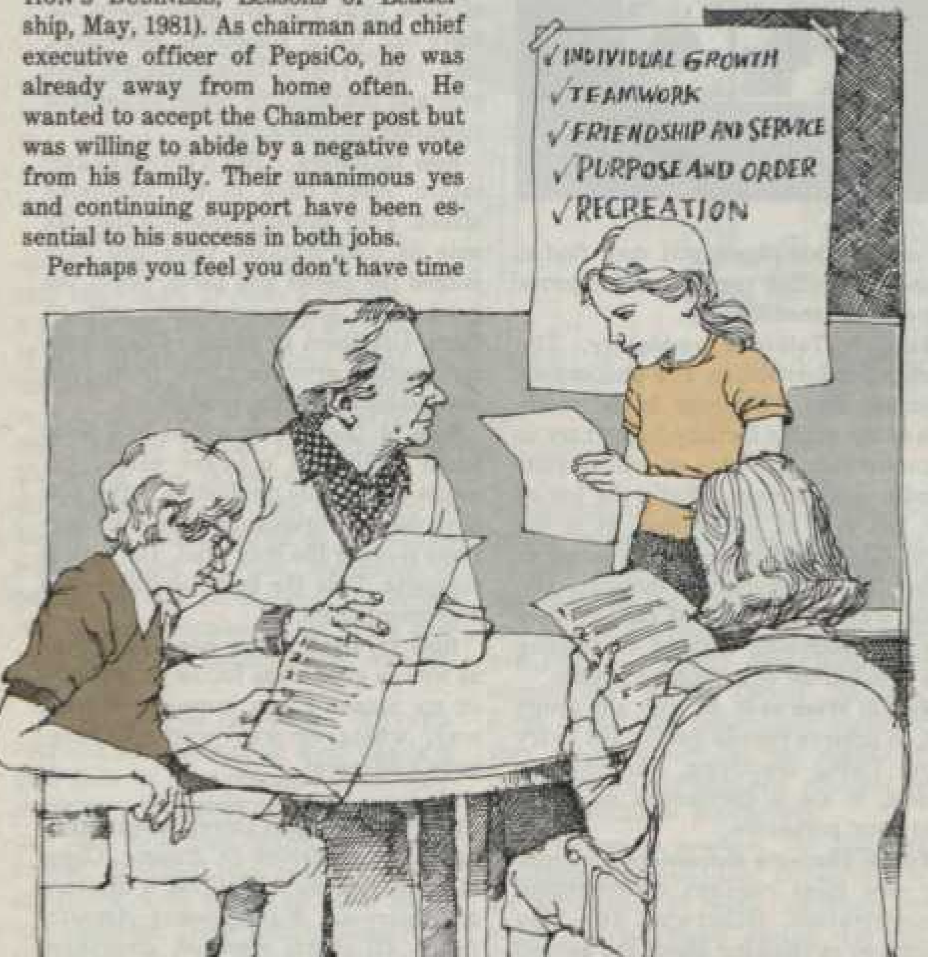

ILLUSTRATION: JOHN HEINLY

• Highlight the efforts, not just the accomplishments, of each family member. Recording these in a family yearbook (your corporate records, if you will) can boost self-esteem and document progress.

• Coordinate schedules to remind everyone of important events and ensure family support for participation in school events.

• Plan recreational activities for the coming weeks and an annual vacation.

• Resolve family problems before they get out of hand.

January is an ideal time to set goals for the coming year. For best use of everyone's time, have an executive meeting with your spouse to consider your present strengths and possible improvements to be discussed with the entire family. The single parent might turn to a grandparent or a close friend for this reappraisal. For a family checkup, consider how you're doing in these five areas of family life:

Individual growth. Are we getting enough rest and exercise? Do we support the physical, mental, emotional, social and spiritual development of each family member? Are we leading by example?

Teamwork. Do we show love and respect for one another, especially when disagreements arise? Are responsibilities in the home fairly shared and willingly carried out? Are communications open and constructive?

Friendship and service. Do we know our neighbors and do things for them? Do we help people in need and get involved in the community?

Purpose and order. Do we make effective use of our time, money and other resources? Do we have personal and career goals?

Recreation. Do we relax and have fun together? Does each person have hobbies and other worthwhile interests? Do we take memorable vacations?

Children of all ages will be more willing to participate in a family board

meeting that is focused, positive and brief—but not so brief that comments are squelched. A good way to keep things on track is to use an agenda. Have it typed and give each member of the board a copy to refer to during the meeting.

Sometimes it may be best to dispense with the agenda if it blocks communication. One of my own family's more memorable councils was held spontaneously near midnight in the darkened room of one child after I had done some disciplining. The setting made it easier to reaffirm feelings of love, and Dad received valuable feedback on his ways of dealing with growing teens.

Document your 1982 goals in your family journal or yearbook. In fact, you may want to make a tape recording of the entire January board meeting.

For a family activity after your planning meeting, put together a time capsule: photos; a taped interview with each member to record present interests, friends, musical talent; samples of schoolwork and handicrafts; and a copy of your goals for the coming year. Put the box away until next year's annual meeting.

During monthly board meetings throughout the year, you can follow up on your goals and plan family activities for coming weeks. At the end of the meeting, agree on the date for the next meeting. That will allow everyone to make plans.

If you are hesitant about planning activities for your family, you're not alone. Some business people feel they do enough planning on the job and just want to relax and avoid structure at home. Obviously, imposing too much structure makes no sense, but a little foresight can help make birthdays more memorable, trips and vacations unforgettable and other times together more productive.

Many families share good times but fail to capture the memories. Plan ahead and use a camera or journal so you'll have investments for your memory bank.

Let your children take turns preparing for and conducting your monthly family board meetings. They may not do as well as you would, but with your encouragement they can develop valuable leadership skills for school, church, civic activities, future careers—and leadership of their own families.

Developing a tradition of monthly family board meetings will take time and energy—perhaps just when you need to burn a little midnight oil at work. But it will be well worth the investment.

The bottom line: Your family life will be more rewarding, you'll have more support for your career . . . and you'll make a bedrock contribution to rebuilding America. □

K. Wayne Scott *is president of the American Family Society, an independent nonprofit organization that is helping to promote FamilyTime, an effort initiated by life underwriters to encourage families to share time together regularly. For a free family checkup, send a stamped, self-addressed envelope to AFS, Department B, Box 9873, Washington, D.C. 20015.*

NOVEMBER SOUND OFF RESPONSE ON PAGE 76.

A More Sedate Fourth Estate?

THE respected *New York Times* goes to press daily under the motto "All the News That's Fit To Print." Newspaper readers have no trouble with the word *all*, but *fit* is a judgment call.

In fact, after more than two centuries of a free press in this country, arguments persist—frequently between the government in Washington and the media—as to what should be reported and how.

For example, President Reagan recently asked reporters to use more "restraint" in what they print and broadcast. He said some reporting is "destructive to our dealings worldwide."

Ronald Reagan is not the first Chief Executive to have such complaints. Government leaders, political animals that they are, tend to accuse the media of overeagerness to find and play up material that is embarrassing to them or to those allied with them.

They argue that the press and the networks are more inclined to try to scoop one another than to hold off on a story in order to gain time needed for a more accurate, balanced picture. They contend, too, that competitive zest often leads to sensationalizing what really are trivial events.

Editors concede that some reporting may weaken the U.S. image in other nations' eyes, but they point out that it may also strengthen that image by demonstrating how solid America's underpinnings of freedom are.

And, editors say, the voters have a right to know about things that may affect their decisions at the polls.

Editors argue that the media (or at least most of the media) have indeed displayed restraint in reporting on national affairs—though, admittedly, in such special cases as military activities.

There is similar controversy about reporters and broadcasters in other areas of national life.

Like government leaders, business leaders often charge that there is too much sensationalism in the media about their activities. Others note that bad news about people gets big headlines while good news ("Millions of drivers today did not hit anybody...") doesn't get a mention. Individuals complain of invasion of privacy that can wreck a life.

The media answer: The people's need to know is paramount, and the press and broadcasters are meeting that need. And articles that may harm individuals may help others through the lessons they teach.

Should the media exercise more self-restraint?

What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Editor
Nation's Business
1615 H Street, N.W.
Washington, D.C. 20062

Should the media exercise more self-restraint? ☐ Yes ☐ No

Comments: ____________________

Name ____________ (PLEASE PRINT) Title ____________

Company ____________ Phone ____________

Street address ____________

City ____________ State ____________ Zip ____________

PEOPLE IN BUSINESS

Service To Please Execs on the Go

"The space program was going down, so I bailed out," says Orlando E. Panfile. He was working in quality control for a company that supplied parts for the U.S. space program in 1972 when he decided to turn flying, his hobby since 1956, into a second career.

"Dit" Panfile, 52, started Aero Services International, Inc., which provides 24-hour service for corporate and privately owned aircraft, in rented space in Teterboro, N.J. Profits were slim at first, and he was not without competition. "But others were concentrating on the bricks and mortar," he says. "I concentrated on giving a high level of service."

For his customers—executives of some of the nation's top companies—he provides a spacious lounge with telephones, complete food service, and papers and magazines. Conference rooms with video cassette recorders are available for meetings. Limousines with security equipment pick up executives as they step from their planes. "Ground transportation is one of the greatest concerns of many of our customers," he says.

Crews can relax in a lounge with television, bunks, showers and a TV monitor that allows pilots to keep an eye on their aircraft at all times. Aero Services also has a flight-planning room and communications center as well as a courtesy car for the crews.

Planes are cleaned inside and out, refueled and serviced and can be stored in the company's hangar.

Apart from Teterboro, the company now has facilities in Morristown, N.J.; Springfield, Ill.; Westchester, N.Y.; Mount Comfort, Ind.; Saginaw, Mich.; New Orleans; Palacios, Tex.; and Houston. Panfile expects that his company's gross, only $200,000 in 1972, will total about $22 million for 1981.

Nevertheless, Panfile can sometimes be found in mechanic's coveralls servicing a plane, and he is not above filling in for a limousine driver to make sure his clients get the kind of service they have come to expect.

One time, Panfile recalls, he decided that a rental car brought to the airport would never meet the standards of the executive who was coming. "At the time I had a brand-new Cadillac, and I turned it over to him to use," Panfile says. "He was so pleased and told so many people about it, it probably brought me more business than any amount of advertising could have."

PHOTO: MARY TUTHILL

Orlando Panfile readies service equipment for a corporate jet that has landed at Teterboro, N.J., at one of Aero Services International's nine facilities.

Panfile believes it is his clients' appreciation of quality service that has kept his company growing. He recently acquired Flightmatic, Inc., which designs and manufactures flight simulators used in pilot training. He intends to diversify further, "but only in something that is aviation-related."

Despite his careful attention to his company, Panfile finds time to be the mayor of Upper Saddle River, N.J., a job whose many duties include performing marriages. "At one ceremony there were 80 people," he says. "I was more nervous than the bride. Flying was never that frightening."

Sitting for Man's Best Friends

There's no place like home for a pet, even if it is someone else's home. That's what crossed Jeanne Tusler's mind when her French poodle, Gigi, scratched and scarred its nose while trying to escape from a kennel cage, thus spoiling its chances to be a show dog. Convinced that many dog owners would prefer to leave their pets with a dog-sitter rather than a kennel, she started Pet Vacations, Inc., in Chicago.

Her company, which bills itself as a humane alternative to kennels, started in Tusler's own home but now uses the homes of carefully screened animal lovers. "Many of the people on our payroll are senior citizens who enjoy the companionship of a pet," Tusler says. "One of them is a teacher who sits for us during her summer vacation."

The service costs about $5 daily for cats and $7 to $8 for the average-sized dog, not including food, plus additional charges if the pet requires medication or a special diet. "We have one little dog that gets all its meals freshly cooked," Tusler explains. "For an appetizer it gets boiled liver, followed by broiled steak."

Owners fill out extensive questionnaires on their animals' likes, dislikes and general habits. "We try to match pets and sitters as closely as possible," Tusler says. "If a pet is used to sleeping with its owner, we find a home where it can plop into bed with somebody."

When Tusler started Pet Vacations in 1978, she was also running a driving school. Two years later her furry clien-

Jeanne Tusler provides home care for pets while their owners vacation.

tele had grown to such numbers that she sold the school. She has placed more than 800 dogs and cats in vacation homes. Many of the pets are repeat boarders.

"Some of the dogs get very excited when they see that they are going to the sitter's home," she says. "One dachshund is so happy at the sitter's that it hides in a closet when the owner returns to pick it up."

One elderly couple, Mr. and Mrs. William Hecht, have had more than 150 dogs and cats in their home in the three years they have worked for Tusler. The lucky dog that stays with them on its birthday gets a cupcake with a candle, a toy and a birthday card.

Pet owners are so pleased with such service that "although I'm listed with an ad in the Yellow Pages, most of my business comes from word of mouth," Tusler says.

She has had many inquiries about franchising and hopes to work out such an arrangement in the future. She has already counseled two people on starting similar businesses elsewhere in the country, but franchising deals will take time to arrange.

Nevertheless, Tusler says, "I think a franchise could expect to clear $10,000 to $20,000 a year." She estimates that her company's profit amounts to $19,000 a year.

"I have about 50 sitters working for me now," she says, "but I could use about 100."

Topless Cabana For a Windy Beach

A year ago in August, John Cameron spent a carefree afternoon with his girlfriend on the beach near Los Angeles, enjoying the warm sun but wishing there was a way to find some shelter from the chill winds.

That evening he began sketching the product he now sells. His adjustable wind screen, called Privasea, consists of eight lightweight canvas panels, 25 inches high and 3½ feet long, supported by stakes that push easily into sand or soft soil.

Sunbathers can fashion a screened area in almost any shape, from a totally enclosed square to a shelter on just one or two sides.

Pleased with his first sketches, Cameron, 28, dashed over to show them to a neighbor. "The family had a new baby," says Cameron, "and their reaction was, 'That's terrific. It would make taking care of a baby at the beach so much easier.' "

He and his girlfriend, Cindy Beal, constructed a model from the sketches and found that it worked as well as they had hoped.

He approached his father, who heads the Maroney Company, an aerospace firm, for financial backing. His father agreed, he says, "because he was impressed with the originality of the design." Privasea Division of Maroney Company was ready to go into production.

Cameron found a company that could manufacture the wind screens for him.

"I merely ran an ad in one West Coast magazine last June," he says, "and I couldn't believe the number of orders I got from New York and other cities in the East." That month he sold between 200 and 300 of the screens, which Cameron calls topless beach cabanas. They sell for $60 each and come in five bright colors: blue, green, yellow, orange and red.

By August, Macy's department store in San Francisco was negotiating to put the screens in its beach shop, and American Express Company was planning to list the item in its next catalog.

"Now I'm working on some accessories that I hope to have on the market by spring," Cameron says. These include a mat that will fit inside the screen and an umbrella that can be inserted as one of the stakes. He is also planning on selling a less expensive four-panel model. Cameron wants to keep his operation simple and uses subcontractors to avoid setting up his own factory.

He and Beal haven't yet made any sales projections for the accessories, but by next year they hope to have sold 10,000 screens. A next step may be international sales—a natural for Cameron, who is fluent in both French and Spanish. □

PHOTO: PRIVASEA

John Cameron shows how you can get privacy by the sea—or anywhere else—with his portable beach cabana. The eight panels also make an effective windbreak.

A Tie on Athletes' Funds

GOLD MEDALS "don't reduce the rate of inflation or balance the budget. When so much emphasis is being placed on a balanced budget, who cares how many gold medals the United States wins? Let's get off our ego trip."

That's how Charles A. Clark, Jr., secretary-treasurer of Clark & Hopfinger, Ltd., an accounting firm in Aberdeen, S.D., responds to the NATION'S BUSINESS November Sound Off question: Should tax revenues support America's Olympic athletes?

Fifty percent of those surveyed voted no. Says Frank P. Morris, owner of a realty company in Spartanburg, S.C., "I would vote yes if you could explain why the working taxpayer in this country should pay for others to play."

However, some of those who favor federal support point out that the financial burden on Olympic athletes is heavy. "The people of the U.S. should support all the teams," says Irene Grahek, executive director of the Housing and Redevelopment Authority of Ely, Minn. "These youngsters must attempt to support themselves and also fund much of their training and competition. It is unfair to put this burden on them and then expect them to come out champions. As a parent of a son on the U.S. national ski-jumping team, I am fully aware of the expense involved."

William F. Deal, executive vice president of the International Bottled Water Association, Washington, says, "It is a disgrace that these individuals must beg and borrow to finance their attendance, especially when this group accomplishes more than many peace missions in representing the U.S."

Arguing against tax revenue support is Thomas Wise, a dentist in Santa Ana, Calif. "I am opposed to our government's engaging in yet another area in our lives where it does not belong and yet another place where waste and fraud can become commonplace," he says. "If we believe in cutting back excessive government intervention, then we should not begin another government invasion into our freedom. It is not all that important."

But sports are indeed important, contend other respondents. Among them is James L. McCready, president of Ord Memorial Chapel, a funeral home in Ord, Nebr. "It was evident when the American hockey team beat the Soviets' government-sponsored team that our entire nation felt a sense of nationalism and pride," he says. "Olympic athletes need more than private funds to continue to attract dedicated athletes to amateur competition."

Some respondents, like Bill H. Stiles, owner of an H&R Block franchise in Dayton, Tenn., think there is too much emphasis on sports. "America has aimed its values in the wrong direction," he argues. "Why should the taxpayer pay for someone to have a great time and prepare himself for a lucrative professional future? If the U.S. is second, third or whatever in the Olympics—so what? Let's be first in education, invention, freedom and unity."

SAYS JANE D. ALOIS, owner-director of JANAR Gymnastic Center, Wilbraham, Mass., "It seems that anytime the government gets involved in a service, the price goes up and efficiency goes down. Keeping this in mind, I favor sponsorship of our athletes by private enterprise. If local companies and individuals would help sponsor local athletes and national companies would sponsor research in training and sports medicine, there would be sufficient funds without federal involvement."

J.A. Badeaux, president of the National Beverage Company, Thibodaux, La., sees only one alternative to federal support if we want to improve our showing at the Olympics. "We must relax our definition of amateurism. Amateurism in the U.S. is interpreted differently than in most winning countries."

K.R. Harmon, owner of Harmon Electrical Repair, Sun Valley, Nev., points out: "Such countries as East Germany may have won many more medals, but those medals are recognized by citizens of free nations to be no more than state-sponsored attempts at prestige and publicity. Our athletes might not have done as well, but the medals are recognized as having been won by people who wanted to win. That seems a bit more sportsmanlike." □

BUSINESS LIFE-STYLE

Unwinding In Winter's Wonders

By John Costello

Oh! the snow, the beautiful snow,
Filling the sky and the earth below.

The white stuff that tumbles from the sullen gray clouds of winter, sometimes in howling blizzards, sometimes in silent cascades, has inspired poets to eloquence.

That's not how it affects John Thomas. True, he would

agree with Robert Frost. To him, too, the white-clad woods are lovely, dark and deep. But the sight moves him not to verse but to action.

He's a snowmobiler. And scenery wasn't what got him into snowmobiling. "I'm a hunter," Thomas says. "And one day in 1965 I saw a photo of a snowmobiler riding out of some rugged deer country with a beautiful big buck. I could hardly have gotten in there on foot.

"Right then and there I decided: I've got to have a snowmobile."

Snowmobiling then was less a hobby than a curiosity. Doubly true in Roanoke, Va., where Thomas owns a family-founded business, Uncle Tom's Barbecue & Fast Foods, Inc.

"I put my snowmobile out in front of the restaurant," he says, "and it almost stopped traffic. When I rode it, I drew a crowd."

No more. Snowmobiles bearing the names of Arctic Cat, Ski-doo, Polaris, John Deere, Yamaha, Kawasaki and other makers now abound in the Old Dominion.

"We get snow around here when warm air from the Gulf moves north and hits a cold front from Canada," says Thomas, 43. "But you never know when. So you have to be ready to go at the drop of a hat."

Some places are more predictable.

PHOTO: JOHN DEERE

Broom ball is snowmobiling's equivalent of polo and a highlight of its equivalent of the rodeo—the snowdeo.

"Every winter for the past five years," Thomas says, "my wife, Sheila, and I go with a dozen other business friends and their wives up to Old Forge, N.Y., in January.

"The trip up looks like a caravan. We tow our machines behind us on trailers. I pull four of them with my four-wheel-drive Ford van."

It's a long way from Roanoke to Old Forge, but the trek's worth it, he insists.

"At Old Forge, there are about 500 miles of groomed trails. Plenty of room, even though you'll have maybe 3,000 snowmobiles up there on a good winter weekend. And plenty of snow—about 300 inches a year. It's a great place to ride and party with your friends."

Has he ever used the machine as he intended—for hunting?

"No," he says. "Riding is too much fun."

Snowmobilers in Virginia number about 6,400, the International Snowmobile Industry Association estimates. But it's the snow belt, the tier of northern states from Washington to New England, where the sport is king.

The rubber tracks of these sleds are propelled by two-stroke, two-cylinder engines with displacements of 250 to 500 cubic centimeters. Certain models have automatic oil injection; with others you mix the gas and oil yourself. They burn less than a gallon of fuel an hour, so a 7- or 8-gallon tank lets you ride all day. Some snowmobiles are built for two passengers.

AVERAGE PRICE of a new snowmobile is $2,200, but some cost as little as $1,200 to $1,400. For boots, gloves, helmet and a warm snowmobile suit, throw in about $200 more. Plus a trailer if you're going to follow the snow.

Michigan has 2.5 million snowmobilers; Minnesota, 1.5 million; New York, 1.4 million; Pennsylvania, 1.2 million; and Wisconsin, more than 1 million. In all, 14.2 million Americans are snowmobilers, according to a survey made for the Interior Department. They outnumber the 12.4 million downhill skiers.

That's some growth for a sport barely 20 years old.

In 1963, for example, snowmobile makers sold only about 9,500 of the mo-

Snowmobiling has become one of the most social sports, with safaris for winter camping or just an evening ride.

Dogs, of course, can haul sleds. They can also be hauled on motorized treks into the wilderness.

torized sleds. Sales in the U.S. peaked at 342,000 with the 1971 models. Last year, Americans bought about 100,000.

The sport is safer than golf, says the Consumer Product Safety Commission, even though a few models zip along at 100 miles per hour. On a CPSC risk list, snowmobiling ranks 54, well below golf, which is 47th.

The early machines were heavy, noisy and awkward.

"They'll crush vegetation," environmentalists protested. But today's lightweight models, largely aluminum, exert less than half a pound of pressure per square inch, less than a 10th that of a hiker's foot.

"They're earsplitting," others once objected. They were, but the high whine and throaty roar have been stilled. Most makes meet the Snowmobile Safety and Certification Committee's standards—no more than 78 decibels at 50 feet at full throttle.

How loud is that? Normal conversation at 3 feet registers 70 decibels. "It would take more than 250 of today's models," the International Snowmobile Industry Association says, "to make as much racket as one pre-1969 machine."

The winter temperature in Alexandria, Minn., averages 0 degrees Fahrenheit. That's cold enough to turn even a Viking blue.

But Karlyn Elgin didn't mind, at least not after her father bought the family a snowmobile back in 1966, when she was a teen-ager.

"I remember," she says, "being able to spend a whole weekend outside having fun. All of us—my father, my mother and I—took turns learning how to drive it.

"What snowmobiling has done for a lot of people, like us, is to completely change their life-style. We used to stay home, watch TV, pop popcorn, sit by the fire. But the snowmobile enabled us to get outside and enjoy winter with our friends. Also, it was an activity all three of us could share. That was important because we were a close family."

When Alexandrians established a snowmobile club—the Viking Sno-Flyers—the Elgins were charter members.

"On Saturdays," recalls Elgin, now a marketing manager with International Dairy Queen, Inc., Minneapolis, "we'd plan winter safaris. Families from the club would go out on trail rides and then wind up the evening roasting hotdogs and marshmallows over an open fire. On Sundays we'd get up a group and tour the nearby lakes—we have 200 in our county—or travel to trails in other parts of Minnesota." Soon they became a two-snowmobile family, she says. Who drove the second one? "Whoever got to it first."

When Ball Corporation asked Max R. Buell to relocate from Indiana to Colorado, it didn't bother him at all.

"I was born and raised in Warsaw, in northern Indiana," he says, "where there is a lot of snow. Many times, we'd get snowbound. It could be two or three days before you could get to the grocery. One day, I saw a catchy ad run in the *Warsaw Times-Union* by a snowmobile dealer. It said something like: 'Snow machines—transportation and fun in the outdoors.' It sounded like that would be the way to go.

"So I bought one. The neighbors thought I was loony—until we had a big snow. Then they all came over with their grocery lists and said, 'Oh, Max, would you mind . . . ?'

"I took a homemade sled, put a big wooden box on it and hooked it to my snowmobile, and away I went with their grocery lists."

Last August, Ball asked Buell to become manager of facilities and security for its Colorado Office Center.

"I had no qualms at all," says Buell, 42, who is co-chairman of the International Snowmobile Council, a federation of U.S. and Canadian snowmobile associations. "The first thing I packed was my snowmobile."

BUT IT'S FUN, not emergency transportation, that grabs him now. Or perhaps aesthetics. "There's something very special about snow," he says. "Very few people can get out as far into the woods or wilderness to enjoy winter beauty as snowmobilers can. The beauty and the quiet . . . it's serene. It's hard to explain, but it gives you a tingling feeling to be out there in the snow, where so few people can go—beyond the roads, even beyond footpaths or trails."

Ray Weeks, owner of Weeks Motor Company, a Jackson, Wyo., Subaru dealer, knows the feeling. When the fields are open to snowmobiling—after 3 feet of white powder covers the sagebrush—he goes to the nearby Potholes area at least once a week. "I've never seen their equal," he says. "There are acres of flat snow beds as well as the pothole basins, which are 150 feet deep and a quarter of a mile across.

"I can work till I'm real uptight. But then I get on that sled and ride out into a different world—out in the free, open spaces.

"Boy, does that make you unwind!" □

Reaganomics: There's No Alternative

With lots of bad weather ahead and the recession near its bottom, you could probably use some good news. If so, turn to the Business Outlook forecast on page 15. This winter of our discontent, predicts the U.S. Chamber Forecast Center, will be followed by a spring of hope and a summer of strong recovery, a recovery that will extend through 1983.

The present slump is in part a cost of controlling inflation, although it has undoubtedly been aggravated by the way the Reagan economic program is being phased in. For example, delaying the cut in top federal income tax rates (from 70 percent to 50 percent) until this month created an incentive to take write-offs in 1981 and postpone income to 1982. Those tactics may well have caused business conditions to appear even worse than they were late last year. Conversely, the tax cuts plus the liberalization of rules governing retirement accounts combine to produce a big incentive for saving and investing this year. And from today's new investment will come tomorrow's prosperity.

To those unwilling to wait for tomorrow, we pose this question: What is the alternative?

On odd days of the month, the President's critics call for new federal spending programs to fight the recession. On even days, they complain about the size of the federal deficit. Or vice versa.

New spending, however, would lead to a larger deficit, to higher taxes or—more likely—to both, and both are already at record highs.

What the President's opponents want, then, is a bigger, stronger federal government and a smaller, weaker private sector.

But how can a weaker private sector continue to fund a bigger government? It can't. Which is why there is really no alternative to the Reagan program. □

Clearing the Air

Business people have an opportunity to improve the Clean Air Act so long as the improvements don't weaken it. That's the message that comes through loud and clear from a public opinion survey on the topic commissioned by the U.S. Chamber of Commerce and conducted by Opinion Research Corporation, Princeton, N.J.

The survey discloses that "fewer than a third of the public have any understanding of the Clean Air Act." Nevertheless, a substantial majority are unwilling to opt for any weakening of clean air standards, even when confronted with staggering cost estimates for meeting present requirements.

Significantly, though, 81 percent of the general public and 78 percent of those who consider themselves environmentalists "agree that changes in the act probably can be made so that air quality will be protected at a lower cost than now."

Gentlemen, start your engines. □

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With its optional front passenger seat removed, Chevy Van offers 21 inches more maximum load length than a comparably equipped van from our closest sales competitor. Extra inches that can mean the difference between getting long loads in or not.

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Although Chevy Van can carry longer loads, it's actually shorter from bumper to bumper. And that not only makes Chevy Van easier to park, it helps to give it a wall-to-wall turning circle nearly 6 inches less than the other guy's!

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